

Jammy dodgers

Tim Jones looks at how new entrants are transforming the UK banking industry through fintech and by targeting niche markets

The past decade has seen a flurry of start-up activity in the UK as new banks arrive on the scene. Tandem, Atom, Starling, Monzo, Shawbrook, Metro, ClearBank – the list goes on. That the “Big Five” – Barclays, Royal Bank of Scotland, Lloyds, HSBC and Santander – still dominate retail banking should not surprise anyone, as any new bank will take time to establish itself and begin to gain the credibility necessary to become a “here today, here tomorrow” part of the UK banking scene.

So what distinguishes these new players? How do they differ, both from the Big Five and from each other? Are they a transient manifestation of fintech hype and bluster, or do they presage the advent of a new and more competitive UK banking scene?

Starting with the incumbents, the Big Five deliver propositions that cover current account banking, savings and loan products, general and life insurance, and wealth management. They see themselves as managers of complex balance sheets that achieve maturity transformation (taking short-term deposits but lending across a spread of often longer durations) and aspire to see themselves as custodians of their customers’ financial wellbeing.

Turning to the new kids on the block, it is possible to classify them as follows.

1. Niche banks looking to excel in their chosen markets.
2. Digital or mobile players seeing the app and phone as the new heartland of retail banking.
3. Banks looking to open up access to the payment and clearing systems.

I believe Shawbrook and Metro are niche players. Shawbrook is a specialist, seeking to excel in the provision of, for example, lending products just outside the areas dominated by the Big Five. An example is residential mortgages for the over-55s. This is a market where the Financial Conduct Authority has voiced concerns over borrowers’ ability to repay, especially in regard to interest-only mortgages. That makes it ideal territory for a specialist, as it requires a highly focused approach and careful risk management.

Metro is essentially a small business bank with a model built around individual branches becoming intimately connected

with their local business communities. It has its eccentricities – the founder, Vernon Hill, is a dog lover, so you will find fresh water for your pooch at every turn – but it is a new twist on what some might see as twentieth-century branch banking.

I classify Metro and Shawbrook as serious attempts to complement, rather than replace, the Big Five. While they may do well, we have had successful niche players for a long time in the UK banking scene, so I do not see this category revolutionising things.

“ *There is probably not room for all the wannabe banks but they may effect serious change in the industry* ”

Tandem, Atom, Starling and Monzo are all looking at life through a smartphone screen. Monzo tries to put itself in the shoes of its customers – “people like us”, says Tom Blomfield, its chief executive. Think hipster metropolitan millennials and you will not be far out. Blomfield and his colleagues think all the data available on smartphones are there to be leveraged and put to use solving problems in people’s everyday financial lives. An example would be the transaction log, which will guess from location data which retailer you have just bought from. It will interact with you to check if it guessed right, building a rapport with you, and positioned as your helpful friend in finance.

Another feature of the service is the ease with which customers can financially interact with each other, as the bank seeks to build a sense of community among these like-minded people.

Monzo believes that the current account, from a fully licensed bank, is the best anchor product for this proposition. Beyond the current account, though, their approach owes much to the advertising meerkats and tenors with squiggly moustaches that pervade our TV screens – comparison sites looking to get you the best deal from a range of providers. So Monzo will happily host Shawbrook as one of a range of lenders available to its clients, taking a commission for business written and representing that

transparently to the Monzo customer.

The key innovation here is the intellectual focus. It is no longer the bank balance sheet with its asset and liability products; it is the customer with their phones and their busy, complicated, stressful lives. There probably is not room for all these wannabe app banks, but their new focus opens the possibility for this group to effect serious change, either through

becoming a part of the next generation Big Five (on their own or by being bought out by an incumbent) or by forcing change within the Big Five.



space, you will have to excuse my bias but I think the opportunity is clear.

Before current accounts went mainstream, most people were paid in cash and did not have bank accounts. It is possible today to create a digital form of cash that could be paid to you across WhatsApp. You could then use WhatsApp to send out your rent and utility payments, as well as paying with digital coins in store.

“ *The service recreates in digital form the row of jam jars on the mantelpiece that were used to segregate cash payments* ”

ClearBank may be the player on my list that you have not heard of, but it has the capacity to shake things up. What Nick Ogden, ClearBank founder, and his team are about is becoming a new fully fledged clearing bank. Despite their protestations to the contrary, the Big Five inevitably see new disruptive players looking to use them to gain access to the clearing and payment systems as a threat. What if these new propositions steal market share or expose important profit pools?

ClearBank has been built to provide a B2B service to such new players, seeing them as their core customer base. That means the bank has the opportunity to facilitate competition right across the spectrum of retail and commercial banking. The ClearBank team brings a great deal of experience to its task and it is going to be fascinating to see what new customer offers emerge from players using the bank to access the whole range of payment and clearing services.

There is also another, even more transformational, service waiting in the fintech wings – fiat digital cash. As the co-inventor of two designs (Mondex and Tibado) in this

This would effectively be recreating, in digital form, the row of jam jars on the mantelpiece that used to segregate the rent money from the coal money from the food money in the days of physical cash wage packets. You could still buy products from the banking sector as and when you needed them but you would not need a current account – your social media profile could provide perfectly adequate credit-scoring data, for example, if you were willing to share it.

That is how fintech might transform banking – creating a more competitive scene through ClearBank, a more customer-focused scene through the influence of the phone banks, excellence in product offerings through niche players, and the retreat of the current account to those who need one, as we go back to the future with digital cash and digital jam jars. ■



Tim Jones is the co-inventor of Tibado digital cash, a former chief executive of Nest, and former chief executive of retail banking at NatWest