

## FEATURE

# How Monzo & Starling Are Transforming UK Spending...

Monzo and Starling are banks you've probably never heard of if you're outside the UK, but they've been leading a quiet revolution to challenge traditional banks to do better — and it's been working. Both banks live on your phone through apps on iOS and Android, with no brick-and-mortar locations or clerks at desks. Instead, at Monzo's headquarters in London, employees' dogs commingle with engineers, support staff, and other workers in the buzz of a startup environment you'd typically find in Silicon Valley.

Mobile-only banks are a totally new approach to banking in the UK, with the ability to see real-time transactions as they happen, easily split bills with

friends, and use cards overseas with no fees. All of these features, and more, have led millions in Britain to now trust Monzo and Starling with their hard-earned cash. With just word-of-mouth and very little advertising, these two banks are showing bigger British banks — and the US — how 21st century banking is really done.

Both Starling and Monzo offer very similar cards and bank accounts that are quickly becoming popular with millennials across the UK — Monzo recently crossed 2 million customers and says it's adding 200,000 more each month, and Starling has more than 550,000 customers. You can easily track your spending habits in

their mobile apps and instantly see when a payment occurs via mobile notifications. Most other banks in the UK take days to process card payments, so you never truly know what your actual bank balance is. Monzo's and Starling's apps are both in real time, so you know whether you can make that big purchase or not. The apps are also very well designed and easy to use, unlike many of the cumbersome apps that have been built by big banks.

Features like easily sending money to friends or fee-free spending abroad are also helping spread the word of these mobile banks. Starling even offers location-based fraud protection so transactions are blocked if they don't



different approach to Monzo, which is focused purely on consumer banking. While a lot of the features are similar between the two, Starling feels like more of a traditional grown-up bank, while Monzo comes across as more hip and community-focused, regularly holding events to listen to and engage with customers. In my own experience using both cards, Starling is ahead in tech and features, but Monzo has the draw of its instantly recognizable bright coral card, better person-to-person payments, and great customer service.

You can sign up for both cards using a mobile app, and both verify your identity by asking for a copy of your ID along with a video of you holding that ID. Even creating joint accounts is as simple as sitting next to the person you want to open a joint account with, and none of it involves speaking to anyone or heading to a physical bank.

match your mobile location, and Monzo was able to quickly adapt its systems to protect customers against a Ticketmaster breach last year. You can also block ATM withdrawals, online payments, contactless (tap to pay) payments, gambling payments, and even traditional magstripe payments with Starling. It's a lot more control over your card than you'd normally find with the traditional big banks.

Boden is a banking industry veteran, but she originally studied computer science and chemistry after growing up in Wales. She started her career at Lloyds Bank where she helped build CHAPS, Britain's first real-time payments system. Boden has also spent time at Standard Chartered, USB, RBS, and ABN AMRO, before giving up on big banks to start something new.

This is all made possible because these mobile banks are new and rely on cloud-based technology, while the bigger traditional banks haven't overhauled their backend systems to keep up. "When we started, you couldn't actually host these technologies in the cloud," explains Starling CEO Anne Boden, in an interview with The Verge. Boden and her team have spent years challenging regulators to embrace the cloud and mobile banks. Starling was founded in 2014, before obtaining its banking license and launching full bank accounts in May 2017.

"In January 2014, I decided we had to start from scratch on new technology," Boden says. "I had come to the conclusion that there were so many technologies now available that could be used, and it was possible to build a bank with a very different culture."

Starling is very technology- and engineering-led as a result and has its sights set on "banking as a service." The aim is to open up its own technology and APIs so that other businesses can use its payment services. Even other financial companies could rely on Starling's

Monzo was founded in 2015 by Tom Blomfield, and the card originally launched in October 2015 as Mondo, before a name change. It was originally a prepaid card that you had



tech so they don't have to build out an entire system on their own. Starling has seen a lot of success here, and even the UK's Department for Work and Pensions is using its technology.

This is a very

to load funds onto, before transitioning to a full bank account. Blomfield previously co-founded Starling with Boden before Monzo. After reported tensions between the two, Blomfield left Starling and took some team members with him to form Monzo. While the card features have always been a step behind Starling, Monzo's



customer focus has won over the hearts of people and helped spread its card to millions. “We got to about a million and a half customers without really doing any advertising,” says Blomfield in an interview with The Verge.

Monzo has achieved most of this through word-of-mouth. I often see people tapping their brightly colored Monzo cards on readers to pay for things in London, and the company has created a loyal following through community events and crowdfunding efforts. Monzo is now running a TV ad campaign, and has posters on buses and London’s Tube network that will undoubtedly help it sign up millions more customers.

Both of these cards have been able to spread so quickly thanks to being radically different to traditional banks, and the way the British banking system is ahead of those in the US both in terms of technology and less complex regulations at state and federal levels. Just 3 percent of cards in the US are contactless (tap to pay) according to a 2018 report from AT Kearney, compared to 64 percent in the UK. There are obvious reasons for

the disparity, particularly as the UK is far smaller than the US, but a key step was Transport for London (TfL) supporting contactless payments in 2014. New York City only just recently caught up last month, and retailers are still struggling to even roll out chip card readers in the US. It will be years until contactless payments are widespread in the US.

Monzo and Starling have also been able to take advantage of Apple Pay and Google Pay, so you can use an app and just your phone to manage your entire bank account and make purchases. I personally use an Apple Watch for the vast majority of my payments, and rarely use my card. Cash is still widely used in the US, though, while UK consumers are more used to using a debit card for transactions regularly.

Getting customers hooked to these cards is just one part of the complex banking puzzle, though. While Monzo and Starling are both appealing due to low or nonexistent fees and their great mobile apps, they both make revenue through offering services on top of a bank account. Starling offers overdrafts, loans, mortgage offers,

insurance, and savings deals through a marketplace in its app. The company generates referral revenue on these, but it seems to be focusing the bulk of its revenue efforts on its banking as a service offering.

Monzo also offers similar overdrafts, loans, and offers. There’s even a Monzo Plus card that includes travel insurance and the ability to withdraw up to £400 free every 30 days in another country. Monzo was forced to scrap its free ATM withdrawals overseas, as the card became a popular way for Brits traveling across Europe to make transactions or withdraw foreign cash.

Both of these mobile banks also have to convince UK consumers to move their entire bank account over. There’s a fast switching service to make this easier so your salary, regular payments, and bills are all switched over, but a big part of this is trust. I still personally use a big bank as my main current account, despite the fact that Starling and Monzo are both protected by the UK’s Financial Services Compensation Scheme that covers you for up to £85,000 if they collapse.