

Informed Choice Radio 121: Tom Blomfield, A New Kind of Banking



Hello and welcome to episode 121 of Informed Choice Radio where I speak to Tom Blomfield, CEO and co-founder of Monzo, a new smartphone-based bank.



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In this episode of Informed Choice Radio, I speak to Tom Blomfield, CEO and co-founder of Monzo, a new smartphone-based bank.

He previously founded GoCardless, the UK's largest Direct Debit Processor, which has gone on to raise over \$12m from investors.

In 2013, Tom was nominated one of the top 5 Entrepreneurs under 30 by the European Commission.

His new startup is Monzo; a new smartphone-based bank which started last year and raised £1 million through crowdfunding in just 96 seconds.

I wanted to chat with Tom about Monzo, but also the future of the banking sector in light of new technology.

It's no secret that the traditional High Street banking model is suffering from a lack of trust with its customers. Traditional banks are seen as slow to innovate and seem to focus more on their own profits than things like customer satisfaction.

In this episode of Informed Choice Radio, I speak to Tom about the inspiration for Monzo, how digital disruption could change the face of banking, what the banking sector could look like in five years' time, whether smartphone-based banking will appeal to everyone, and what makes London such an attractive home for Financial Technology.

Welcome to A New Kind of Banking with Tom Blomfield, in episode 121 of Informed Choice Radio.

Martin Bamford: Well, I'm delighted to welcome to Informed Choice Radio today, Tom Blomfield, who is the CEO of Monzo, a new smartphone based bank. Hi Tom.

Tom Blomfield: Hi there. Delighted to be here.

Martin Bamford: Could you start by telling our audience, our listeners, a little bit about you and your background, where you came from?

Tom Blomfield: Sure. Where to start? I started building websites about fifteen years ago when I decided I didn't like delivering leaflets for my local estate agent. I instead, convinced him to let me build a website. It was a start of my career on the Internet, I guess.

I ran a startup at university, sort of a student marketplace. Then, after a brief and ill-judged foray into management consulting, started a company called GoCardless, about 5 or 6 years ago now, which is an online direct debit processor. It helps any kind of business startup, small, take recurring payments on the Internet. Then Monzo was started back in February of 2015. The aim of creating a better bank account.

Martin Bamford: Where did the idea come from? What prompted you to start Monzo once you'd explored the cardless and the payments industry, payments side of things?

Tom Blomfield: Yeah. I think it was, I've always loved science fiction. I read, I remember very vividly, this book called Islands in the Sky when I was young, which was about this teenager who finds a loophole in the competition that lets him go into space, spend a month on a space station, orbiting the Earth. I just loved the promise of science fiction.

The last 5 or 6 years, the amazing thing is that technology has started to make that science fiction into reality. It's astonishing. I think because we are all so close to it, perhaps, we don't quite realize how fundamentally the world's changing.

I was in Silicon Valley a month ago and on the road in front of my Uber, which is a great service in of itself, there was a Google self-driving car. There's a company out there that's managed to get a company smart enough to drive a car unassisted on a road. That's just

astonishing. I just love that this is happening. It's really delivering huge benefit to consumers around the world.

The gulf between that experience and my bank account is just enormous. My bank can't tell me how much money is in my account today, in time, it's always 2 or 3 days out of date. Whenever I go abroad my card gets blocked for fraud, even if I've phoned them up. A company doesn't work that way so, "Sorry you have to phone back after we've blocked you and then we'll unblock it."

I go overdrawn, like a couple of months ago. Instead of telling me at the time, "Hey, you're about to go below zero. Do you want to do this, do you want to move some money from the savings account still at the same bank?" They just ignore that, let me go overdrawn and then three weeks later I get a letter in the post saying here's your pre-notification of charges. How is it a pre-notification if they tell me three weeks after it happened?! It's the gulf between that experience with my bank and self-driving cars and artificial intelligence that genuinely makes the world better even in some small way.

Martin Bamford: Well, so you've built the self-driving car of banking, you've created Monzo. How does it work in practice? How's it work now and how's it going to work in near future? I understand it's something that's still growing, still developing, as you build it.

Tom Blomfield: Yeah. It's kind of three phases, I guess. The first phase, which we're coming to the end of is we launched a prepaid card. Before we had banking, about a year ago now, we launched a prepaid MasterCard, on which we lose money. We did it as a customer development exercise. We knew it weren't the full functionality, it was only a very limited feature set, but we wanted to get customer feedback. We wanted to know if we're making something that people really wanted or not. The reaction to that was hugely positive.

We've had a quarter of a million people sign up to the waiting list because the card's limited supply because it costs us so much money. We issued 50,000 of those cards and, I don't know, 30 or 40 million pounds spent on those cards now. That's the first phase of the company.

You could accurately describe it as a bank account or a pseudo bank account with some bells and whistles and they're a bit shinier. We go abroad and instead of blocking the card for fraud, we'll say, "Welcome to New York" or, "Welcome to India." I just travelled last week, which in itself is a pretty amazing experience, but it's just the first step.

I think the second step for us is getting our banking license, which we got back in August, which is a huge, huge milestone. That enables us now to take those deposits onto our own balance sheet and lend out overdrafts to our customers so customers who go into overdraft we can say, "Hey, you're heading below zero. We know you're paid in 7 days' time, so do you want to take a loan? £200," which we know you'd spend in about a week, "will cost you about 75p. Do you want to take this loan, yes or no?" That's a medium stage of the business where we generate revenue of overdraft lending.

I think the third stage to business is the most interesting one. Which is positioning Monzo, not as a better current account like a shinier bank account, but a financial power tool for everyone in the world. What I mean by that is a tool that helps you manage all of your money. Whether you've got an ISA sitting over there or a pension or you've got money in the PHP lender or a mortgage or a credit card or whatever it is, Monzo is the single control centre for your financial life.

We do that via data sharing and APIs. Basically, we can anticipate your problems and solve them before you even know about them. We do that by connecting with third party services, crucially. It's a marketplace or an applicant store of banking. Those third party services might be financial, they might be mortgages or they might be non-financial.

An example I always use. I use the Tube in London, TfL and I use it with my Monzo card. Sometimes I forget to tap out, there are no barriers in Shadwell, it's very annoying. I get a penalty fare. By the way, if you go into TfL website you can get a refund by saying, "Hey, I was at Shadwell, I forget to tap out." They'll just give you the money back.

What if your bank looked out for that kind of stuff? What if your bank said, "Hey, you forgot to tap out at Shadwell. We located the user there at the time so pretty sure you were there. We'll just go and get you your money back from TfL without bothering you."

What if your bank, when you arrive in India says, "Welcome to India. Here's the exchange rate. Hey, you forgot to buy travel insurance, but because we know you've just arrived from the country and you're probably very unlikely to have had a medical accident 30 minutes into your trip, we'll let you buy medical insurance now. 15 quid for 2 weeks of cover. Yes or no?"

It's that kind of financial marketplace, that application, that's really looking out for you and helping you solve your problem before you even know about that. I think that's the long term vision for Monzo.

Martin Bamford: It's a brave new world, isn't it. I think I'd almost call it helpful banking, but I believe that strap-line's been used by one of the traditional banks in the past so I won't say that. One of the books I read earlier this year was call Bye Bye Banks, it was by James Haycock and Shane Richmond.

Tom Blomfield: Yeah.

Martin Bamford: Within that book they said, "It's plain to see that there's a perfect storm of competition, technology and shifts in consumer behavior and regulation, and that's set to wreak havoc on the businesses that we trust with our money, namely the banks. Is Monzo part of that digital disruption that's going on and is going to change the entire face of banking? Will the traditional banks change as a result of what you're doing?"

Tom Blomfield: I think it will change hugely, the banking landscape will change hugely. I think disruption is a massively overused word, but I think it's very apt in a Clayton Christensen disruptive innovation sense here.

We're starting out with a product that looks like a toy. There's this prepaid card, isn't fully featured and main incumbents looking at everyone going, "Why would you ever use that? It's a prepaid card. It's not a real bank account." The pace at which it improves is astonishing.

In 6 months' time it will be a full bank account. Then, a year after that, it will be a full

control centre for all of your money.

The most scary thing for incumbent banks is we have an unfair advantage. The unfair advantage is that because we don't have a huge cost base, we don't have to derive as much revenue from our customers, we don't have to cross-sell them our products of our balance sheet. Instead, we can offer our customers, if they want a different mortgage or a credit card, we can be that marketplace. Our customer knows they're always getting the best price, the best choice, the best customer service when they pick a product through Monzo. That, as a traditional bank, is very, very hard to stomach.

Traditionally, what a retail bank would do is acquire you as a customer very young and then cross-sell the products to the customer. We can never price most competitively. They reserve the introductory pricing for their new customers to attract new customers in. Once you're in the back book, as they call it, they'll basically give you the standard savings account or standard credit card or whatever. It's just not the most competitive.

How is a bank to compete with that when a customer knows that with Monzo they will always get the best product? It's impossible to compete against.

Martin Bamford: Absolutely. This isn't a case that the traditional banking sector is going to be slow to adopt and adapt to the new world, it's a case they simply won't be able to compete. What will High Street banks look like then in say 5 years' time? Will there still be a role for the High Street banks alongside the disruption of digital banks?

Tom Blomfield: I think what we'll see is probably a split, a bifurcation, if you fancy, between balance sheet lenders who take deposits and underwrite risk and make loans basically, and data platforms. It's a hub and spoke model and everyone in the hub and spoke model wants to be a hub.

Monzo's no different. We want to be the centre of your financial life. The spokes we see as third party balance sheets. Banks are resigned to do this. Making each of their financial products standalone, stand on their own two feet. To really make them competitive you've got to dramatically, dramatically reduce costs and improve efficiency in processing.

I do see, where it's the new syntax, the PSP end is all the banks, there will be balance sheet lenders. It's just not necessary a game Monzo wants to play. We want to be in the data business, the platform business.

Martin Bamford: When we talk to our clients about FinTech and about what's emerging in this market, one concern they always raise is security. Does this shift in banking from the branch experience to the smart phone experience introduce some different risks and potentially raise some other trust issues because trust is such a big issue in banking at the moment with traditional banking?

Tom Blomfield: Security and trust are both very, very important. I think you'd be mistaken to assume that a retail bank with a branch network has an advantage there. Actually, quite the opposite.

A big case in the press ... I can't remember. I think it was an actress from a soap opera or something, had about £120,000 stolen from her account because someone who looked vaguely like her went into her local branch and basically withdrew a ton of money. You just think about that for a second. On your mobile phone you have a finger print sensor, you have geolocation, you have a video/voice. You have a bunch of extra stuff like finger printing, you can access whether the device is the same device that that person last logged in with, whether they're on the home WiFi network. All of these extra security layers help you really, really, really know your customer. Versus you go into a branch and 19 year old behind the counter looks at you and goes, "You look like a middle aged woman, this is a picture of a middle-aged woman here. I guess you're the same person."

I think it's a mistake to assume the retail banks have an edge there, especially if they've grown their systems over the last 50 or 60 years by acquisitions. You've got this Frankenstein's monster of IT systems in the background with so many different attack vectors.

Every branch had a network port, and I hope it's not true anymore, but certainly times when you plug a cable into a network port in a bank branch, you're onto the bank's networks, unsecured. It's just astonishing.

Whereas if you think of a digital bank that lives in a very, very secure H centre, you can't just go and plug into their network. It's behind layers of both firewalls and physical walls with men with guns. Starting from scratch, in the modern day, actually can develop a much greater level of security.

Martin Bamford: Will smartphone based banking appeal to everybody? For example, we work with a lot of retired people, and after all they control most of that wealth in this country so I'm sure they're a target audience for businesses like yours. Will they be as comfortable using a smartphone to do their banking as a typical millennial customer for example?

Tom Blomfield: Eventually. Eventually. I think, delicately put, demographic trends are in our favour.

Martin Bamford: Right.

Tom Blomfield: Right now, my gran does not use Monzo. We've bagged our oldest user, I think, in their early 80s actually. We have users across the age range. Certainly if you're someone who lives on your mobile phone, you are more likely to adopt Monzo, whereas my gran loves going into her bank branch and talking to her bank manager.

Slowly over time, more and more and more people who've grown up with smartphones will just see it as the natural way of doing things. Younger people don't really understand what branches are for. Why would I wait in a queue? Why is it only open between 9 and 5 when I work? Why is it not open at weekends?

My bank application works all the time, why don't I just use that? I think it will just become the natural way of doing things. Right now we don't need all of the customers. We're focusing on getting our first million or so customers. There's certainly enough tech early adopters to manage that.

Martin Bamford: Okay. Just a few more questions to finish, if that's okay Tom? The UK and London in particular has got quite a reputation now for financial technology for FinTech, what makes London such an important hub for FinTech? Do you think the UK will continue and will be a world leader in this particular market?

Tom Blomfield: I think what has made it so powerful and so attractive over the past 5 years or so is that it has a combination that no other city on the world has, I don't think. Perhaps except from Singapore.

All it has is a very powerful financial sector which is shedding a ton of jobs right now. A lot of people who understand how finance works are coming out of banks. I think it has a payment system, a banking system, that works extremely well. Probably the best in the world. Faster payments and BACS or the card schemes, which really the US is 20 years behind that.

It has the people. It has the payment infrastructure and the banking infrastructure. It has the capital but probably less so than Silicon Valley or New York, but probably more than anywhere else in the world. There is capital available here.

There's also regulation and government. The regulatory environment in Europe is very, very pro new competition. PSD1, in 2007/8/9, the banking reforms in 2013. PSD2, that's coming next year. These are all regulatory mechanisms to lower the barriers to entry to increase competition. I mean, expressly. It says it in the first paragraph of these laws that this is designed to increase competition by helping new entrants into the market.

Then the government is very supportive of that. Downing Street and the Treasury really are pushing this agenda. They want London to be the FinTech hub of the world I guess.

Unfortunately, Brexit has to come up at some stage which is, I think, a huge, huge mistake on the part of the UK. It's deeply disappointing. I think it will undermine our economy as a whole and really damage our claim to be the FinTech capital of the world.

Particularly with access to talent from across Europe. I mean, something like 30% of Monzo staff are European. We've employed zero people from outside the EU. Just because visas and immigration is so, so difficult for a small company. It just makes sense to go the path of least resistance.

We've employed very talented people from across Europe and we're worried about our access to the labour market.

Secondly is this harmonized market. We had access, for now we still do have access, to whatever it is, 500 and something million, 520 million people across the UK and Europe. With Brexit, without the right to passport, that could be reduced to 60 or 65 million which is a big problem for us.

Martin Bamford: Absolutely. Tom, thank you so much for being a guest on Informed Choice Radio today. I've really enjoyed that conversation. Before you go would you like to share the web and social media links to Monzo with our listeners?

Tom Blomfield: I would love to. You can download the application from our website monzo.com or Monzo on the app store and Google Play store, and we are Monzo on Twitter as well.

Martin Bamford: Fantastic. I'll make sure we include those links in the show notes of this episode too. Thanks for your time. Enjoy the rest of your conference.

Tom Blomfield: Thank you very much. Cheers. Bye bye.

Martin Bamford: Bye.

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