

## Monzo – Written evidence (SCG0029)

### About Monzo

Monzo is the bank that lives on your phone. Founded in 2015, we're the UK's largest digital bank and growing at pace. We have over 10m customers and an ambition to serve many more millions globally in future. With a mission to make money work for everyone, we're transforming traditional money management with tech and co-creating with customers to deliver products and tools that put them in control of their finances. Examples of this include Monzo's:

- **Market leading customer satisfaction** scores we now top the tables for both personal and business customers.
- **Help for customers to start saving**, for example pots to help budgeting- over 400,000 are created every month.
- **Monzo Investments**, helping customers to start investing for their future, often for the first time. Over 270,000 people joined the waitlist to invest with Monzo in the first three weeks.
- **Open Banking interface**, used by over 5.2 million customers, helping businesses to get paid faster, and consumers to understand their spending and budget across all their accounts.
- **Monzo Business**, which has helped more than 500,000 business customers since it launched in March 2020. Over 1 in 14 small businesses in the UK now use a Monzo Business account. This is a product we built with customers - understanding what business owners need from a business bank account.

For the purpose of this written submission, Monzo is largely aligned with the submission put forward by UK Finance, to which Monzo fed into. However, we would like to share additional evidence, available below.

### Summary

Some of the themes further explored in the submission can be summarised as follows:

- Regulatory inconsistencies and gaps, especially regarding misalignment in objectives across regulators leads to unintended consequences and blind spots in regulation (e.g., Resolution Authority lacking competitiveness and growth objectives).
- Disproportionate thresholds, such as MREL requirements, impede the growth of mid-tier and challenger banks compared to international benchmarks.
- Fragmentation among UK regulators (e.g., PSR, FCA, PRA) hinders cohesive policy-making and creates inefficiencies.

- Overlapping requirements and numerous thresholds create excessive compliance costs, particularly for smaller and scaling firms.
- A holistic approach to fraud prevention is necessary, integrating accountability for all players, including online platforms.
- Enhanced metrics and evaluation tools (e.g., causal chain analysis) are needed to measure the impact of regulations on growth and competitiveness.

## Submission

### 1. What opportunities or changes should be prioritised in order for the regulators to meet their secondary growth and competitiveness objectives effectively?

Monzo supports the Financial Conduct Authority (FCA) and Prudential Regulation Authority's secondary competitiveness and growth goal. To be competitive, we need a strong financial system and effective regulators. Some key priorities could reflect this:

- **Regulatory inconsistency:** The growth and competitiveness objectives must apply consistently across all regulations. The fact that the Resolution Authority, which has such a significant impact on the firm's business and growth plans as well as directly impacting the costs that a firm is exposed to, does not have a competition objective nor the secondary growth and competitiveness objectives might lead to significant unintended consequences and blind spots in regulation. There are several ways in which the inconsistency in the Resolution Directorate's objectives impacts their approach to the regulatory requirements on firms:
  - The impact of the growth of challenger banks is not considered so the disproportionate cost implication of requiring a mid-tier bank to raise capital for MREL has not been truly accounted for in the approach to setting thresholds.
  - The lack of an international competitiveness objective is clear in the comparison with other similar jurisdictions that set their indicative bail-in thresholds much higher than the UK (100bn USD and EUR vs current 15bn GBP)
- **Secondary objectives lack specificity:** Assigning the PRA and FCA secondary objectives is insufficient; there is a need for stronger coordination between financial regulators and other government bodies with direct growth mandates.
- **Particular interventions, like APP fraud reimbursement requirements disproportionately impact fintechs, limiting innovation:** The PSR's reimbursement requirements place the entire financial burden of APP fraud on PSPs, overlooking the role of other stakeholders such as social media platforms in the prevalence

of fraud. Combined with Consumer Duty's focus on consumer protection, these reimbursement obligations deter fintechs from taking risks, ultimately stifling innovation. This runs counter to the FCA and PRA's competitiveness and growth objectives and risks depriving consumers of more innovative products. The importance of enhancing financial literacy in schools to foster an informed consumer base, thereby reducing the impact of fraud is also needed.

- **Consumer Duty's ambiguity drives risk-aversion:** While the introduction of Consumer Duty principles is a positive step, the lack of clarity around their application is prompting banks and fintechs to become increasingly risk-averse, fearing potential non-compliance. Greater clarity on how Consumer Duty intersects with prescriptive rules is needed for the FCA and PRA to effectively meet their secondary objectives on competitiveness and growth.
- **Need for proportionality to support fintech growth:** A more flexible approach to regulatory requirements, including capital requirements, is needed especially for smaller banks and new entrants that do not pose systemic risks. Tailored regulation could reduce the compliance burden on smaller banks and fintechs, thereby encouraging innovation, particularly given that the UK remains among the most costly jurisdictions for compliance.

**2. To what extent are the regulators focused on the objective to promote international competitiveness and growth? Are there areas where the ability of the regulators to fulfil their secondary objectives might be constrained by having to fulfil their primary objectives?**

There is a necessary balance that ought to be struck between stability and competitiveness. The UK banking market has been dominated by the same small number of banks for decades and as Sam Woods stated in his Mansion House speech in 2019, "*no little bank has recently become a really big bank*", and little has changed since then. No mid-tier bank has yet become a true competitor to the big four banks. Regulatory barriers prevent challengers achieving the scale they need to truly disrupt incumbents meaning suboptimal customer outcomes and weaker international competitiveness. There should be a more robust, consistent and proportionate definition of systemic when setting key regulatory thresholds for banks. Improvements in different regimes have been welcome and helpful but the general complexity and relatively low thresholds remain a barrier to scaling (*please see answers to Qs 3 and 4 for specific examples on this*).

**3. What are some of the barriers in the current regulatory framework (including the role and responsibilities of other regulators and bodies such as the Payment Systems Regulator, The Pensions Regulator and the Financial Ombudsman Service) that could hinder efforts to drive economic growth and international competitiveness in (a) the UK economy and (b) the financial services sector?**

The current regulatory framework in the UK creates a number of barriers that hinder efforts to drive economic growth and international competitiveness, both within the broader economy and specifically in the financial services sector. Many of these barriers are created by fragmentation of standards between different regulators and areas of regulation.

***Example 1: fraud prevention and reimbursement***

An example of this fragmentation can be seen in fraud prevention. As a regulated bank, Monzo falls under the remit of the Payment Systems Regulator's (PSR) mandatory reimbursement model, which aims to protect consumers and incentivize banks to invest in fraud prevention. While this model aims to protect consumers and incentivize investment in fraud prevention, it places the responsibility squarely on financial services firms. This isolated approach overlooks the broader ecosystem, where a substantial proportion of fraud originates outside the financial sector—such as scams facilitated by social media platforms or peer-to-peer marketplaces. For instance, Monzo has reported that 80% of the scams affecting its customers are purchase scams, with over 70% originating on social media. Despite their role in enabling such fraud, these platforms remain outside the scope of regulatory accountability. This siloed approach not only hampers fraud prevention efforts but also stifles innovation and cross-sector collaboration, adversely affecting the UK's broader economic competitiveness. The impact is particularly acute for homegrown fintech firms and digital banks, which experience higher volumes of fraud incidents than traditional banks.

By comparison, jurisdictions like the EU are exploring more integrated approaches that distribute fraud prevention responsibilities across all sectors involved, including online platforms. The UK's current framework, however, isolates financial services firms, requiring them to shoulder the costs of fraud largely driven by other sectors.

The additional financial burden on UK financial technology firms, which are already making significant investments in fraud detection and prevention technologies, makes the sector less attractive to founders and investors and undermines their competitiveness. At Monzo, for example, we have invested heavily in machine learning models to detect and prevent these

incidents in real time and collate in-depth data on the origination of these scams. Our designers, engineers, user researchers and fraud experts have worked together to create a tailored approach to purchase scam prevention, and it's working - we're stopping 55% more purchase fraud than this time last year. Yet, without systemic change, these advancements risk being undermined by an unbalanced regulatory environment.

A more holistic regulatory approach is essential to overcome these challenges. Extending clear fraud prevention requirements and liabilities to platforms such as social media and peer-to-peer marketplaces would ensure that all stakeholders contribute to combating fraud. Greater collaboration between regulators is also essential to foster a unified and effective approach.

### ***Example 2: resolution standards (MREL)***

Another issue related to the fragmentation of standards lies in the Bank of England's regulatory approach to MREL thresholds. At present, a particular set of indicative thresholds determine the likely resolution strategy for a bank as it grows. These are set by the Resolution Directorate of the Bank of England, at far lower levels than the EU or US, which makes investment in UK banks less attractive than EU or US counterparts.

These standards are also inconsistent with other parts of regulation. For example, the ringfencing threshold will rise to £35bn, but firms are considered systemic remuneration standards at [£20bn](#) as an example, and some additional resolution standards have applied to banks with only 40-80,000 firms. The fact that examples like these, where the CRR small firm definition is different from the one for the bailing threshold for MREL, has led to an inconsistent patchwork of requirements over time, deterring new entrants and inhibiting innovation. For example, UK challenger banks must negotiate 53 such thresholds as they grow. These thresholds disproportionately impact smaller challenger banks and act as a barrier to growth and investment. The cost of meeting MREL requirements varies among smaller banks, depending on their business models and market risk profiles, leading to disparities in their ability to raise capital. For many, these costs significantly constrain their capacity to scale operations, invest in innovation, or compete effectively with larger, more established institutions. This weakens the overall dynamism of the sector and undermines the UK's position as a global financial hub leading to blind spots if the SGCO does not apply consistently.

**4. Do the regulators have the right capability and capacity to fulfil their regulatory objectives on growth and competitiveness? To what extent might the culture of the FCA and PRA influence their ability to fulfil their growth and competitiveness objectives?**

The culture of the FCA and PRA plays a critical role in their ability to fulfil the growth and competitiveness objective. Reputational and other incentives in the regulatory system reward risk aversion and conservatism. While this foundation is appropriate, it should be complemented by a greater emphasis on fostering innovation and competition. Striking this balance requires recognising the benefits of proactive, pro-competition regulation alongside the traditional safeguards.

This includes fostering a more collaborative and forward-thinking approach, where regulators actively engage with industry players to identify opportunities for fostering innovation and international competitiveness. Encouragingly, there have been efforts by the FCA and PRA to increase engagement with industry and improve transparency, such as through consultations and innovation-focused initiatives like the FCA's regulatory sandbox.

However, more needs to be done to address underlying barriers to growth in competition. The regulatory structure itself should be simpler to navigate for growing firms. As an example, the 53 thresholds for deposit takers, with different thresholds created by remuneration, resolution, prudential, and other policy requirements pose an unnecessary layer of complexity and leads to increasing compliance costs for new entrants.

**5. How effectively have the FCA and PRA consulted or engaged with industry in relation to the new secondary growth and competitiveness objective?**

The Bank of England engaged firms to discuss evaluation metrics and criteria for their work in this area and it was positive that firms were invited to discuss evaluation approaches with Bank officials. However, more needs to be done in establishing robust evaluation approaches, for example by ensuring that measures like overall capital requirements - these do not account for business model risks, as a proportion of deposits held by firms vs GDP are not used in isolation.

**6. In delivering their secondary objective on growth and competitiveness, what opportunities are there for the regulators to help to promote and support innovation in the financial services sector? How effective has the FCA's regulatory sandbox been for supporting greater innovation in the financial services industry?**

To effectively deliver their secondary objective on growth and competitiveness, regulators must move beyond isolated tools like the FCA's regulatory sandbox and ensure that the entire regulatory framework is inherently pro-innovation. While the sandbox has been an effective mechanism for supporting early-stage fintech firms by allowing them to test ideas in a controlled environment, it is not sufficient on its own to foster systemic innovation across the financial services sector. A broader, more integrated approach is needed to enable innovation at every stage of a firm's growth journey.

For example, firms transitioning from startups to scale-ups face significant hurdles due to overlapping and inconsistent regulatory requirements. Mid-sized firms contend with 53 different thresholds as they grow on remuneration, prudential standards, resolution, and conduct—resulting in excessive complexity and compliance costs that stifle growth.

Payments is one area where these challenges are acutely felt, with firms spending up to 90% of their budgets on compliance, leaving minimal capacity for innovation. Creating a consistent definition of systemic firms, consistently applied across regulatory areas, would streamline compliance, reduce barriers to entry, and encourage scaling.

Inefficiencies within the broader regulatory framework also exacerbate these challenges. In the UK, fragmented and duplicative initiatives not only increase the burden on firms but also undermine competitiveness. In contrast, jurisdictions like the EU have taken decisive steps to address competition challenges posed by Big Tech, securing binding commitments from digital wallet providers to ensure fair competition. Meanwhile, the UK's slower approach has left domestic fintech firms at a disadvantage, highlighting the need for a coordinated regulatory approach that integrates financial services with other digital players in the ecosystem. Holistic regulation—aligned across sectors and underpinned by clear, consistent thresholds—can provide the necessary environment for innovation to thrive while ensuring fairness and stability.

Regulators must also prioritise structural reforms to enhance the attractiveness of the UK as a destination for businesses and investors. Delays and fragmented action in areas such as competition inquiries erode

confidence in the UK market. Ultimately, the regulatory framework must evolve to become inherently pro-innovation. This means not only refining tools like the sandbox but also addressing structural inefficiencies, reducing complexity, and ensuring a more coordinated and streamlined regulatory approach. By doing so, regulators can unlock the full potential of the financial services sector as a driver of growth, innovation, and international competitiveness.

**7. How should the regulators ensure that any measures introduced to meet the secondary growth and competitiveness objectives work for businesses of all sizes across the sector, including startups, scaleups, and incumbents?**

We agree with UK Finance's submission on this point. Metrics could go further to make sure firms of different sizes are supported, especially for challenger and mid-tier banks. Regulators should ensure that measures to meet the secondary growth and competitiveness objectives are effective for businesses of all sizes by committing to a theory of change that links interventions to growth and competitiveness. For example, the PRA could use causal chain analysis to track specific regulatory impacts and report against public metrics, offering transparency and early insights into whether interventions are working. Tools like the Policy Index could further support businesses by streamlining access to relevant rules and updates, helping startups, scaleups, and incumbents navigate the regulatory environment effectively.

**8. Does the requirement within the secondary growth and competitiveness objectives to align with international standards create any constraints to fulfilling those objectives?**

Given the UK's prominence as a leading global financial centre, as well as the FCA and PRA's world-class reputations, the UK frequently takes the lead in developing baseline international standards. If this trend continues, we don't see a big conflict between delivering the new secondary purpose and adhering to international standards. However, coordinated standards are vital in several areas, and the UK should assert itself in shaping those international standards, rather than just complying with them. Future investors will decide whether to start new institutions in the UK, EU, US or elsewhere based, in part, on the regulatory costs and benefits of doing business.



**9. Are there examples of regulatory policies in other jurisdictions that should be considered by UK regulators to help facilitate the new secondary objective? What might the FCA and PRA be able to learn and apply from comparable supervisors in other markets in terms of applying secondary objectives on growth and competitiveness?**

Regulators worldwide have taken innovative approaches to foster growth and competitiveness in financial services, offering valuable lessons for the UK. These include:

- **Swift competition enforcement:** The EU has set a high standard in responding decisively to competition issues, especially in the technology sector.
- **Proactive and comprehensive regulatory frameworks:** Singapore exemplifies how a central regulatory authority can foster innovation across sectors while maintaining robust oversight.
- **Consumer-focused data access rights:** Australia has led the way on consumer rights to access data with cross-cutting Open Finance standards, empowering consumers and enabling innovation.
- **Industry collaboration:** The EU's engagement with industry stakeholders in cryptoasset regulation highlights the importance of early collaboration to develop effective standards.

Some specific examples include:

- 1. Competition policy and enforcement:** When Apple restricted access to its NFC technology, the EU's competition regulators stepped in swiftly, [mandating](#) that Apple open up its NFC services free of charge to all competitors. This led to a series of legally binding commitments from certain digital wallet providers designed to "open up competition", fostering a more competitive and equitable landscape for fintech firms across Europe. In the UK, however, the response from the Payment Systems Regulator (PSR) was much slower, with an inquiry still ongoing - leading Apple to impose a fee for access to its NFC technology. The EU's decisive action thus provided a more supportive environment for technology innovation than the UK's more fragmented response, which had limited impact due to the FCA, PSR's and CMA's delayed intervention. While we understand that the PSR is not bound by the secondary growth and competitiveness objectives and that the same degree of evidence base is necessary here in the UK, we believe that the speed and quality of response from UK regulators relating to competition inquiries is relevant to the objective. When

considering the efficacy of the secondary objectives relating to growth and international competitiveness, it's important to consider the disadvantages, if any, that UK firms face against international competitors.

- 2. Payments regulation:** Recent reviews of the Payment Services Directive (PSD2) and new initiatives like the EU Payment Services Regulation and PSD3 include updated measures on payment fraud prevention and ensure balanced competition between banks and non-banks, spurring fintech innovation and offering broader consumer choices. Ireland has adopted a similar approach, launching its [National Payment Strategy](#) to introduce a "pay-by-account" solution, providing a bank-based alternative to card payments and fostering a comprehensive approach to combating payment fraud. In contrast, the UK's own national payments vision has faced delays, partly due to political factors, placing UK firms at a competitive disadvantage as their EU counterpart's progress. In Singapore, innovation-friendly policies from the Monetary Authority of Singapore (MAS) have established the country as a global leader in financial services. Its coordinated approach actively involves private sector collaboration, ensuring that regulation promotes growth while maintaining robust oversight.
- 3. Open banking and open finance:** The EU is actively debating the Financial Data Access Regulation (FiDA), which will effectively move forward with Open Finance initiatives under a unified regulatory framework, offering broader consumer control over financial data and innovation. Australia has similarly led with a consumer right to access data, establishing cross-cutting Open Finance standards that empower users and enhance competition. While we understand that the UK's Joint Regulatory Oversight Committee (JROC) is not under the direct scope of this inquiry, it seeks to bring different regulators together to advance open banking initiatives. However, the lack of a single lead agency with direct responsibility has slowed down progress. Consolidating regulatory responsibilities or assigning clearer mandates within the UK's regulatory landscape could help ensure faster and more effective implementation of open banking policies that could unlock Open Finance and allow UK firms to align with the EU and international counterparts in developing competing products.

These are some examples of how the FCA and the PRA can learn and apply from other international comparable supervisors. By looking at these examples, the FCA and PRA can better meet the demands of competitiveness and growth, establishing a financial environment where firms and innovations can thrive more effectively.

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