

CENTRAL BANK OF EGYPT
Egyptian Banking Institute



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CURRENT TRENDS

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Challenger Banks

**Shaping
theFuture**
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MOVING FORWARD WITH CONFIDENCE...

Background

Recent financial crises around the world have increased the competition in the financial services sector and revealed the need for additional banking options. Challenger bank is a new trend in the banking industry, emerging worldwide since the crisis of 2008 and gained a higher importance in the last years due to the expansion of digital banking and Fintech. The initiation of Open Banking regulations in addition to the evolution of digital and mobile technologies had led to the rise of this new generation of banks called “Challenger Banks”.

Challenger banks are using advanced innovative technology that's disrupting the traditional banks and institutions. They are mainly focusing on delivering personalized banking services that reshape the customer experience. The purpose of these challenger banks is to compete with the long-established big banks and give consumers more options in the fintech world. Open Banking Technology is supposed to offer challenger banks the opportunity to shape their services to the changing needs of the modern consumer.

Concept and Definition

Challenger Banks are new self-sufficient banks that are set out to challenge conventional banking style. The growth in Fintech and de-regulations such as Open banking in the financial sector had greatly helped challenger banks to flourish in very short period of time.

Many of these challenger banks are basing their business models on technology avoiding expensive branch networks. Their way of banking is online only and in many cases, mobile first. This means waving away the high cost of branches and branch staff while focusing on serving the customer's needs. The main drivers for growth of the global challenger bank market are the ease & flexibility offered as compared to traditional banks, in addition to the favorable regulatory scenario. It's worth mentioning that challenger banks have a full banking license, allowing them to operate fully as a financial institution.

Importance

- Allowing better customer support on phone and through multiple access points like social media
- Facilitating an easy access to the challenger banks financial services from any part of the world on the smartphone.
- Offering a host of additional services such as budgeting and customized financial planning advice
- Giving more control over the card with some features such as freezing and unfreezing
- Charging affordable and highly transparent fees
- Allowing an easy account opening process and fast processing of bank services
- Providing a less bureaucratic experience
- Offering relatively higher interest rates on savings due to the reduced overheads and highly innovative credit facilities

Practices in the banking sector

Best Challenger Banks in 2020:

- **“Monzo”** challenger bank is very well known as the best in tracking expenses, offering a comprehensive current account as well as business accounts. The Monzo application provides spending notifications, set spending targets and a bill tracker that sends notifications if the customer’s regular direct debits are higher or lower than usual. It also differs from other competitors because their current account is accessible to anyone above 16 years.

Around three million people now use Monzo.

The features offered:

- **Fee-free spending abroad:** Monzo does not charge when spending with a card abroad. The bank doesn’t need to know if the card holder is travelling– so no rejected payments and overseas calls to unlock the card.
- **Easy budgeting features:** This service allows to keep track of ongoing bills.
- **Personalized savings pots:** Monzo offers a personalized savings pots to help their clients to reach planned financial goals.
- **Spare change saving:** The app rounds up the spare change every time the person spends. So, if a person spends £4.25 on lunch, it will automatically shift 75p into his savings.

- **“Starling Bank”** is a digital-only bank best known for goal-oriented savings. It was launched in 2014 to change the everyday banking experience for customers. It doesn't charge for overseas spending, and exchange rates are competitive. It can regularly offer an automated report detailing the clients' expenses and provide useful tips on how they can maximize their savings. The features offered:

- **Instant spending notifications:** The application sends notifications to inform the customer what he's spending the most on.
- **Reminders:** The application offers to nudge anyone that owes you money by sending them a simple reminder link, and the option to split bills.
- **Business tools:** The business account comes with extra features such as accountancy tools and no monthly fees.

- **“Revolut Bank”** was launched in 2015, and is one of the largest challenger banks in the market known for the cards control. They stand out as one of the only challenger banks that allow customers to exchange money into cryptocurrencies. It is also known for its highly flexible accounts and free international cash transfers. The bank has around 3 million customers — both consumers and businesses.

The features offered:

- **Fee-free international cash transfers:** Cash transfers over to 25 countries at the current interbank exchange rates.
- **Balance in different currencies:** The account can hold balances in 16 different international currencies.
- **Cards Control:** The application gives full control over the card where you can freeze and unfreeze or send monthly spending limits.

- **“Atom Bank”** is targeting long term savings and mortgage services. It's known for fixed term deposits and business loans. The bank doesn't provide a debit card because of its strict focus on long term, also deposits have to be through bank transfers only, that's why it can't be used for everyday transactions. It offers the creation of a goal savings accounts and the interest rates depends on the amount saved and the time limit.

- **“E20” – UAE's first digital business bank:** is a challenger bank, it was designed with a focus on SMEs at the end of 2019. It was launched by Emirates NBD, and allows business owners to conduct international and local transfers, generate invoices, and track receivables. It can also share information on VAT returns. With its head quarter in Dubai, it will help business owners manage their finances and cash flows efficiently and in an affordable manner, while also powering their decision-making and growth plans.

- **“N26”** is a German challenger bank, it can be accessed from any European union country, and is focused on the ease of sending and saving money. The bank is most used by international travelers due to the fee-free transactions when using their cards to make transactions from any part of the world. The bank is accessible through a very user-friendly mobile application that gives full control over the account and the debit cards. The customer can easily lock and unlock the card, set the expenditure limit and also change the pin within the app and without contacting the customer support.

It offers different types of accounts such as a free basic current account, or the premium N26 Black and N26 Metal, and the card is delivered in between 5 and 7 business days. With a premium package, the customer can benefit from free payments in any currency, Allianz insurance coverage as well as free withdrawals worldwide.

- **“Tandem”** is a challenger bank that differs from others due to the fact that instead of using the app to create a new account, it implants itself on any existing current account. It's best known for budgeting, as it offers to link multiple bank accounts to track spending. It collects data from the linked accounts and generates expenditure reports that can be used to better understand the client's money management draw back. It also recommends cheaper services and products from reputable brands to encourage saving.



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