MAY 20

Tom Auchterlonie

UK regulator tells neobanks not to liken themselves to banks

Article

The UK's Financial Conduct Authority (FCA) warned the chief executives of neobanks in a Tuesday letter to avoid comparing their upstart companies with licensed banks, voicing concern that consumers may think the challengers' offerings have the same risk profiles as those from established players. Within six weeks, fintechs that operate under an e-money license—such as Revolut—must notify customers about how protections they offer are different from licensed banks', such as a lack of Financial Services Compensation Scheme deposit protection.

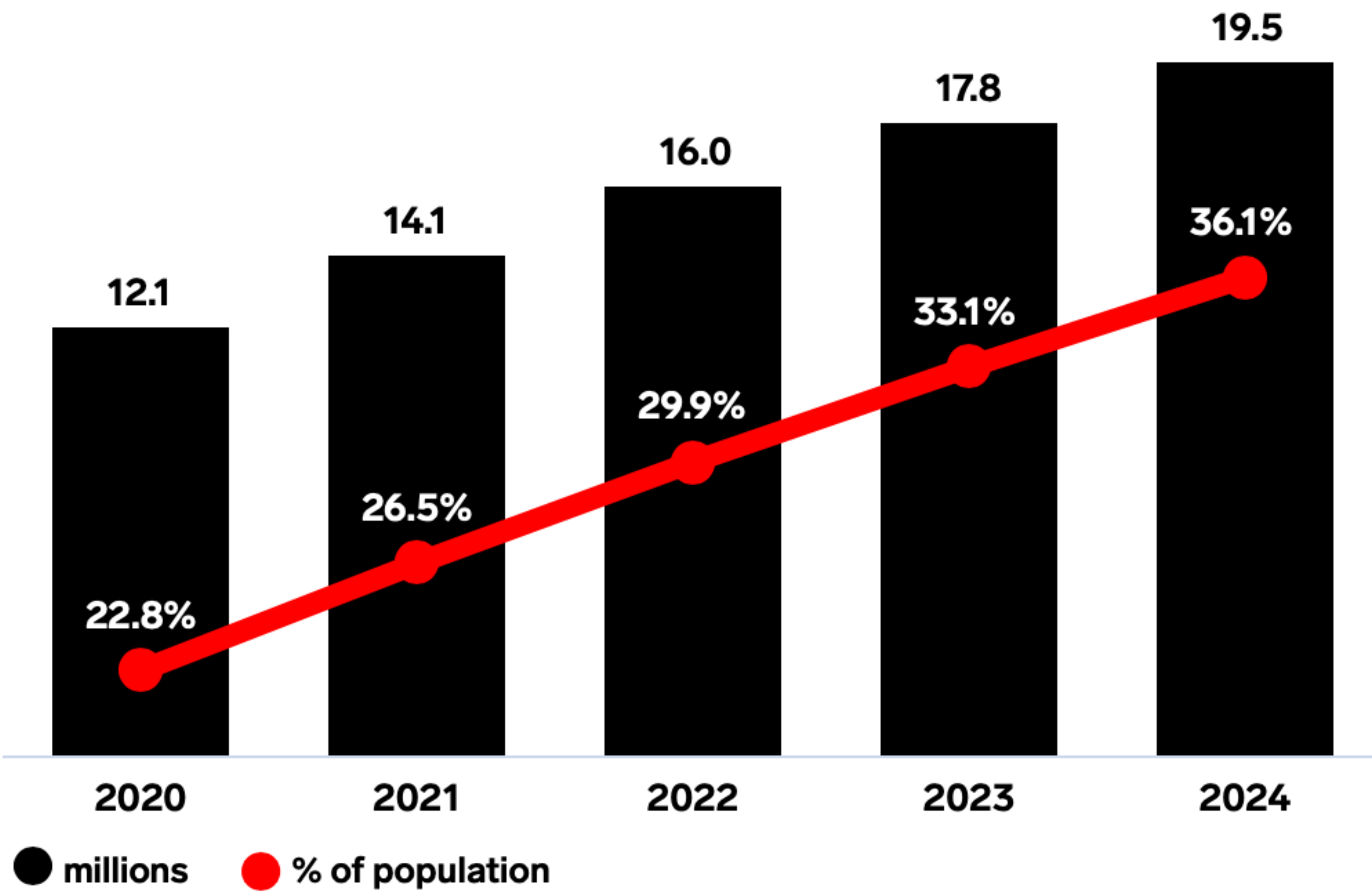
The FCA's warning is the latest case of regulators tightening oversight of neobanks.

- **US federal regulators:** In prepared remarks released this week, Acting Office of the Comptroller of the Currency (OCC) head Michael Hsu wants the regulator to work with other agencies in deciding whether to grant fintechs banking charters. The OCC rolled out a fintech charter in 2018 that lets nondepository challengers become national banks without deposit insurance—but the charter has been subject to litigation from state regulators.
- **US state regulators:** Chime agreed to stop referring to itself as a bank in its marketing materials, per a settlement with the California Department of Financial Protection and Innovation that was dated to March. The state regulator took legal action against Chime in 2020 because the neobank was likening itself to a bank without having a state banking license.
- **Australian regulators:** In March, the Australian Prudential Regulatory Authority (APRA) initiated a de facto crackdown on neobanks, unveiling proposed rules for how authorized deposit-taking institutions can set themselves up. The APRA is seeking to clarify capital requirement rules and have neobanks provide more advanced planning for possible market exits.

The stricter regulatory environment may push neobanks across markets to make hard choices about their operational futures. The intensifying scrutiny adds urgency to neobanks in deciding whether to keep their status quo or in pursuing bank licensing—an endeavor that would require significant effort and costs. Neobanks may find that becoming licensed is worthwhile in terms of improving relationships with regulators and more effectively building trust with customers by being able to legally call themselves banks. Greater trust could prove lucrative for challengers because there is higher satisfaction among US digital banking users who have above-average trust in their banks versus those who have below-average trust, per a survey from Insider Intelligence. Customers in the former cohort were found to use online and mobile banking services more often than those in the latter, and they were more likely to open additional accounts at their existing bank.

Digital-Only Bank Account Holders and Penetration

UK, 2020-2024



Source: eMarketer, June 2020

eMarketer | InsiderIntelligence.com