



Monzo's new investment product

A deep dive on the FinTech move into retail investment market

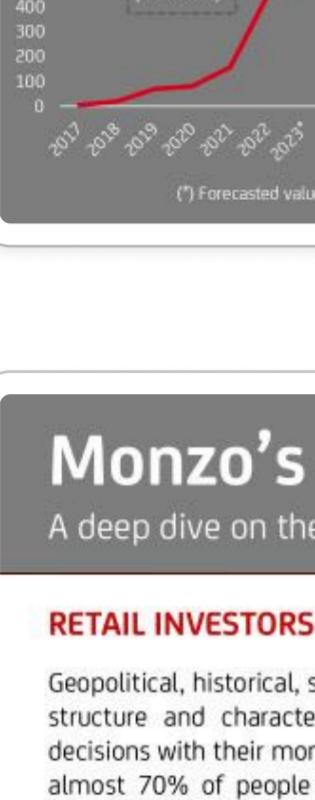
MONZO IN NUMBERS

Total funding £743 m raised in 15 rounds

Latest valuation £3.7 Bn

Present in UK (licensed) & US (via Sutton Bank)

Number of users and average deposits¹



MONZO: THE RISE OF THE LARGEST CHALLENGER BANK IN UK

Monzo with ~8 mn clients is one of the biggest challenger banks in EU and the 7th largest bank in UK. "Mondo" – that's the original name of the FinTech - was born in 2015 with the ambition to make banking easy, building an online-only bank people would like to recommend. Monzo entered the market with a prepaid card that could be funded from their app, that immediately caught the attention of the market for its ease to use and distinctive brand.

While Revolut is still fighting to obtain a banking license in UK, Monzo got it in 2017. Over the years, they have been focusing on building a financial control center, where clients go to manage their entire financial lives. The product strategy combined with a strong brand identity allowed Monzo to steadily grow and enter new markets (i.e., US). The focus on interests income - driven by overdrafts, unsecured personal loans and Monzo Flex product (+194% compared to FY22 lending volumes) - and the favorable interest rates allowed the company to capitalize its customer base, reporting the first two months of profitability in 2023.

Last in September, Monzo announced its latest product: an investment feature that allows customers to invest in 3 different BlackRock's funds based on their risk tolerance. The type of Monzo's customers was immediately high as evidenced by the waiting list of over 200k people just two weeks after the announcement.

AN OVERVIEW OF THE RETAIL INVESTMENT MARKET

The retail investment landscape presents structural differences across developed markets. The existing level of involvement and participation of EU retail investors in financial markets is currently low.

In this respect, US and Europe present diverging data. Europe has one of the highest individual saving rates in the world, but the rate of retail investor participation in financial markets falls short behind US. Analyzing the distribution of financial assets owned by households, Americans tend more to hold equity financial assets rather than currency and deposits, the latter much more adopted by Europeans.

One of the main reasons for such a difference stays in the pension system. Countries with a pension system where capitalization plays a strong role tend to have a higher retail participation rate in capital markets. In US through the 401(k) retirement investment plan, but also in many EU northern countries, people buy assets with the purpose of financing future retirement benefits, bearing the investment risk.³

But is this the only reason for such low confidence towards capital markets? And why is Monzo launching a dedicated product for such a segment?

(1) Monzo's Annual Report, 2023; (2) Organization for Economic Co-operation and Development (OECD); (3) Retail Investment Strategy, ECON Committee, June 2023

Household assets² - % of total financial assets



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RETAIL INVESTORS: ENTRY BARRIERS TO GET STARTED

Geopolitical, historical, social-demographic and cultural elements are decisive in defining the structure and characteristics of capital markets. People want to make good long-term decisions with their money but often struggle to find an accessible investing product (in UK almost 70% of people according to YouGov research). Analyzing data across Europe, two barriers are emerging as blocking factors for retail investors.

FINANCIAL LITERACY IS INSUFFICIENT

People feel they don't have sufficient financial knowledge to invest in financial markets and it makes them feel insecure when investing.

Based on a recent survey by EC¹, only 18% of EU citizens have a high level of financial literacy based on the knowledge and understanding of financial concepts and risks (i) and the skills and confidence to apply such knowledge in order to make effective decisions across a range of financial contexts (ii).

The gap is wider when it comes to women, younger people, people with lower incomes and those with lower levels of education who tend to be less financially literate than other groups.

INVESTING ISN'T AFFORDABLE

People perceive financial markets is just for wealthy people. The idea that investing isn't affordable is preventing people to get started. According to YouGov research, in UK 60% of adults say they would be inclined to invest if the minimum investment amount were low.

Moreover, in Europe, the households with the top 10% highest income own 51% of total financial assets. Stocks and mutual funds constitute an important portfolio share for households in the upper part of the income distribution.²

(1) Eurobarometer survey on financial literacy in the EU, European Commission, 2023; (2) Household Finance and Consumption Survey. Results from the 2021 wave, ECB Statistics Paper Series No 46

MONZO'S INVESTMENT PRODUCT STRATEGY

VISION

Remove investment obstacles by making it straightforward, accessible, and affordable directly through the App. People should be able to invest within an ecosystem of financial services, including budgeting, spending, transferring money, and borrowing.

TARGET AUDIENCE

"I feel overwhelmed as I don't have the knowledge I need to get started"

"I believe investing isn't affordable due to my low income"

"I feel investing is not enough personalized"

The target audience fits with Monzo's customer base: 72% of Monzo's customers are between 18 – 35 years old, with an avg. deposit of £793 (FY22), many of which first-time investors.

PRODUCT OVERVIEW

3 ready-made options (funds of funds) managed by BlackRock, among which clients can choose based on individual risk preferences

- Two account types: stocks & shares ISA (£20k yearly limit) transferable from other providers; general investment account (no limits)

- £1 min investment with possibility of regular investing and withdrawals

- Transparent fees set to 0.59% of investment value (0.45% platform fee)

- Financial suitability check and educational content mechanisms to nurture positive investing behaviors.

COMPETITIVE LANDSCAPE

The move will put Monzo in direct competition in UK with banks like Chase (backed by Nutmeg), asset mgmt. firms and FinTechs like Moneybox, Plum. Players like Revolut and N26 represent indirect competitors as offering direct access to financial assets rather than investment mgmt. services.

MEASURABLE OBJECTIVES

The product main goal is to increase clients' stickiness through Monzo's financial ecosystem.

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HOW MONZO TRANSLATES ITS PRODUCT STRATEGY INTO ITS CUSTOMER EXPERIENCE

Monzo's investment experience is founded on three key principles:

1. Accessible to all

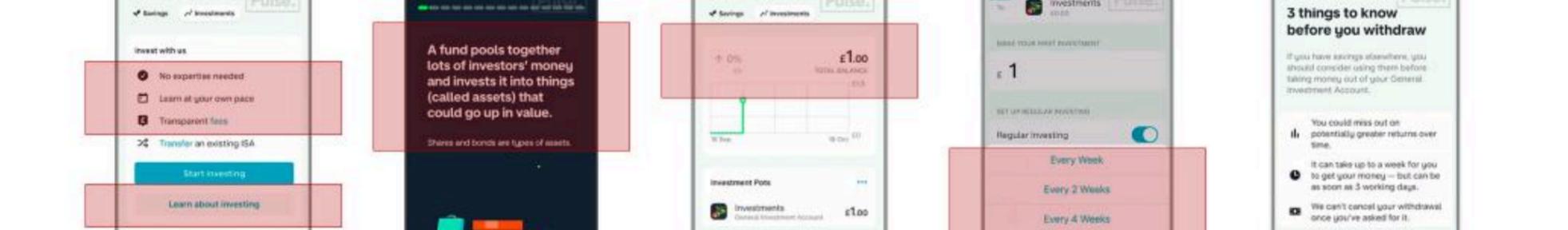
Monzo ensures that investing is an option for everyone, not only wealthy people, emphasizing its simplicity and the absence of a requirement for prior financial expertise.

2. Tailored to the target customers

Monzo refers to a young, tech-savvy, trend-conscious target audience, predominantly comprised of first-time investors. It communicates with them in a way that resonates with their financial needs.

3. Openly dealing with fears about investing

Monzo's approach creates an environment where the fear of investing is minimized, promoting a sense of confidence and security for potential investors. Trust and transparency are, therefore, pivotal.



Monzo's investment journey (main steps)

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1. ACCESSIBLE TO ALL

Making the financial investments easy and affordable to all seems to be the guiding principle of Monzo's investment.

Monzo conveys to the customers the basic investment knowledge, supported by investments leader BlackRock and gives the possibility to learn at their own pace, making its product accessible and understandable from a large audience.

No prior experience in this domain is needed.

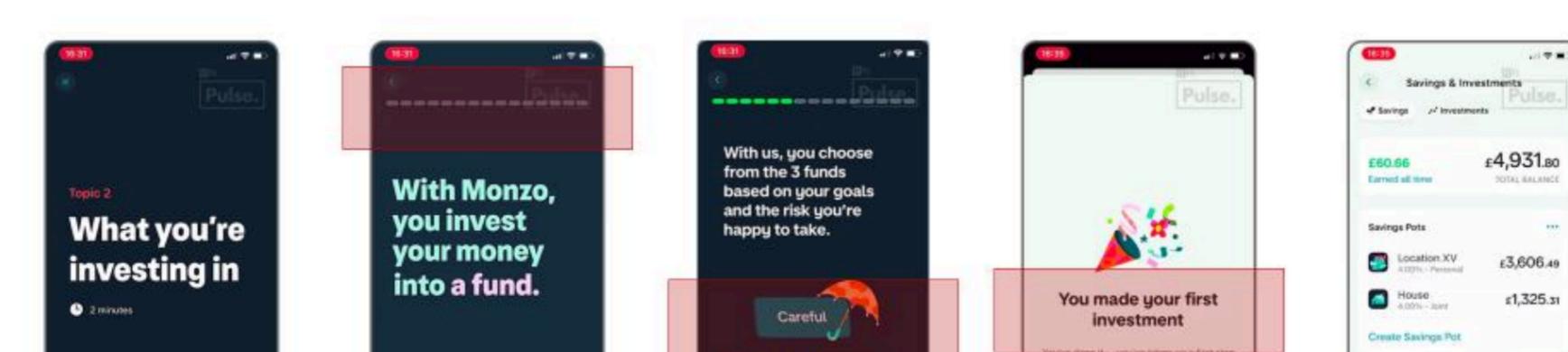
Furthermore, no huge amount of money to be invested is needed; indeed, you have the option to invest as little as £1 and withdraw your funds whenever you prefer.

HIGHLIGHTS

#The investing experience is supported by beginners-proof tutorials and information.

#Possibility to invest as little as 1 £ and withdraw at any given time.

#Possibility to set automatic investments choosing between different frequencies



Source: Analysis on journey by 11:5 Pulse

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2. TAILORED TO THE TARGET CUSTOMERS

Monzo engages its target audience through a friendly and dynamic approach, using an Instagram-like "Essentials" session to educate and engage Millennials and Gen Z with concise tips presented through animations, colors, and illustrations.

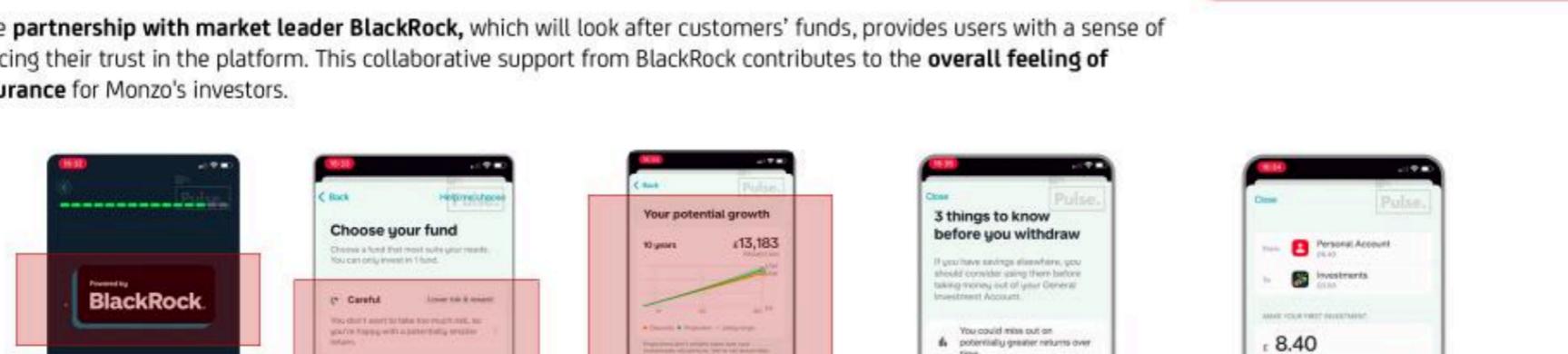
The overall investment experience with Monzo is portrayed as an exciting adventure, avoiding complex financial language and creatively naming risk profiles to emphasize excitement. Customers are celebrated for their first investment.

HIGHLIGHTS

#The Instagram-looking tutorial

#Engaging and adventure-filled journey

#Avoidance of jargon



Source: Analysis on journey by 11:5 Pulse

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3. OPENLY DEALING WITH FEARS ABOUT INVESTING

Monzo cultivates an environment that minimizes the fear of investing, fostering confidence and security for prospective investors.

This approach acknowledges that people tend to be loss-averse, and trust and transparency are crucial in mitigating this fear.

Throughout the investment journey, Monzo places great emphasis on disclosure. It communicates the fees that will be deducted in a transparent way, and it informs clients that the value of their investments can fluctuate. This openness aligns with the spirit of adventure and growth in the investment experience, where managing losses is considered a calculated risk.

HIGHLIGHTS

#Plain and simple, honest and direct communication

#No additional fees. Full transparency from the very beginning.

#Supporting the customer in any step of the journey.

#Partnership with BlackRock, leader in the market

Source: Analysis on journey by 11:5 Pulse