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Financial services super-apps: Growth and transformation through engagement

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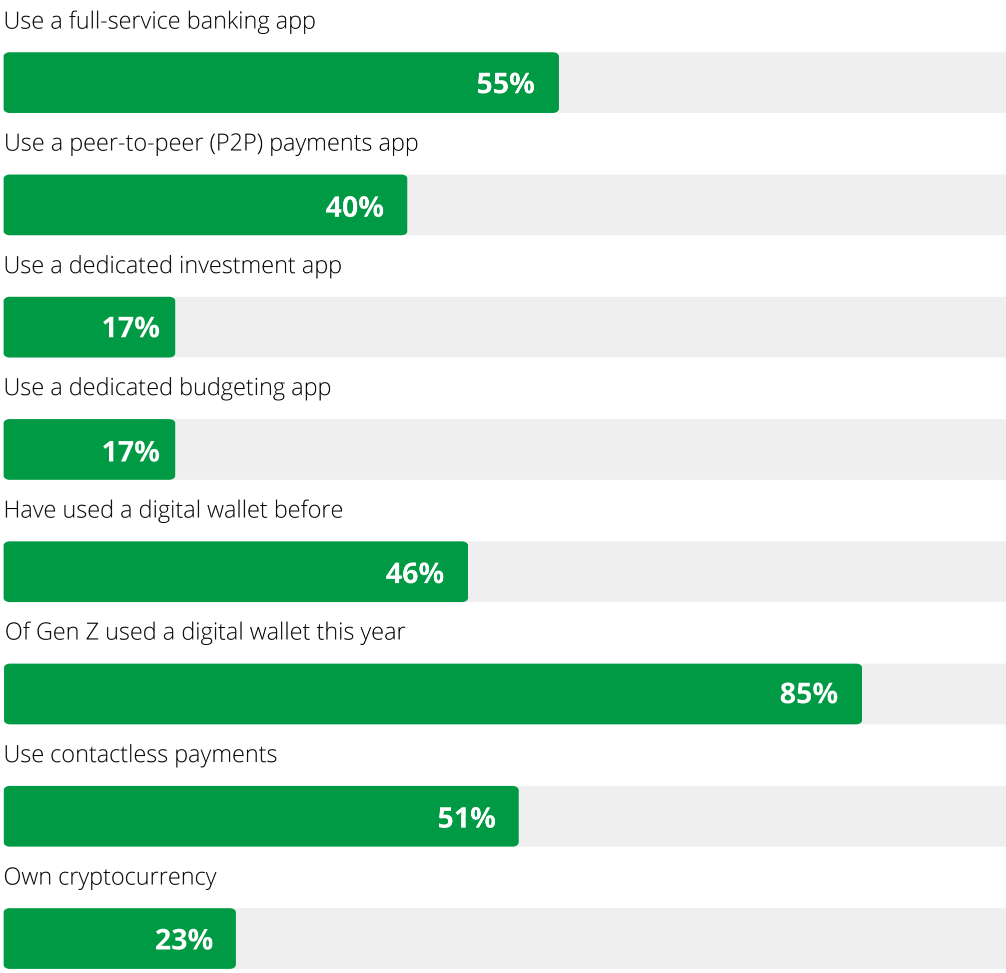
Introduction

The past decade has seen an innovation renaissance in the banking and payments space. The broadening of access to payments infrastructure, democratization of access to data, development of alternative financial ecosystems, and declining barriers to payments continue to disrupt traditional models and challenge core competitive advantages of incumbents. Financial services previously handled exclusively by banks are now being delivered by technology firms aligned to popular nonfinancial channels, like social platforms or accounting software. Engagement platforms (e.g., Google), commerce platforms (e.g., Amazon), ERP platforms (e.g., QuickBooks), and segment-focused platforms (e.g., Shopify) are all seeking to own larger and larger shares of consumers' financial services purchases.

Engagement with mobile financial services is growing, but many products are seeing limited penetration as stand-alone apps as users demonstrate a finite willingness to manage finances across many platforms. Financial institutions (FIs) recognize this and are rolling their consumer product lines into one app to be a one-stop shop for all their consumers' needs. "Super-apps" are positioned to become the next step in orchestrating these offerings together, building on the promises of convenience and value that have attracted users to traditional banking alternatives for years (figure 1).

Figure 1. US financial services app usage



Sources: Daxue Consulting; Finder; Associated Press, Boston Herald; Global Payments

Super-apps deliver a better experience by hyper-personalizing and enmeshing financial services into a lifestyle platform. Throughout Asia, super-app payment solutions are already surpassing credit, debit, and cash in popularity—92% of residents in China's major cities use WeChat or Alipay, China's two largest super-apps, as their primary form of payment.[1] In this third chapter of our super-app series, we explore the disruptive potential super-apps have for financial services in the United States, the capabilities needed to stand up a successful super-app, and the role today's players might have in tomorrow's burgeoning super-app ecosystem.

Our two companion articles explore the possibility of a B2B super-app, the shape super-apps may take within Western markets, and what impact they may have. View the full series.

When is a super-app the right approach?

Super-apps will likely play a major role in Western mobile app usage going forward, but they are unlikely to achieve the same dominance as WeChat or Alipay have in China. For a slew of reasons discussed in our first article, you can anticipate seeing Western super-apps take a more segment-driven approach. Before discussing what capabilities are important in super-apps, it's helpful to consider when super-apps are the right approach—successful super-apps strive to combine services in ways that bring new value to the customer, not just the business. Speed, performance, and maintenance of a navigable user interface (UI) are key tenets of developing any app, let alone a super-app. If implementing an additional feature impacts these, it's critical to ask:

Does the value of individual services improve when combined? Integrated services should be symbiotic. Super-app payment platforms, for example, amplify other services by offering a low friction, app-wide payment option that invites new users to transact. The new service, in turn, supplies the payment system with additional transaction volume and therefore greater revenue (typically through a small transaction fee). The whole must be worth more than the sum of its parts.

This applies to user experience (UX) and UI as well—putting utility bill payments in the same space as credit card payments, although "heavier," will save users hassle; putting utility bill payments in the same space as mobile gaming will more likely feel clunky. Stickiness or data-sharing alone are not sufficient reasons to tack on additional services—adding services should have a compounding effect on the convenience or value brought to the user.

Do we have permission to combine new services? Not all services intermix well—bringing too much, or the wrong choices, under a single umbrella can deter current users. This is where incumbents have an advantage—technology giants already know which users are engaging with which services and therefore what should be tied together as a super-app. Unicorns and startups, although not precluded from the super-app space, will contend with more guesswork.

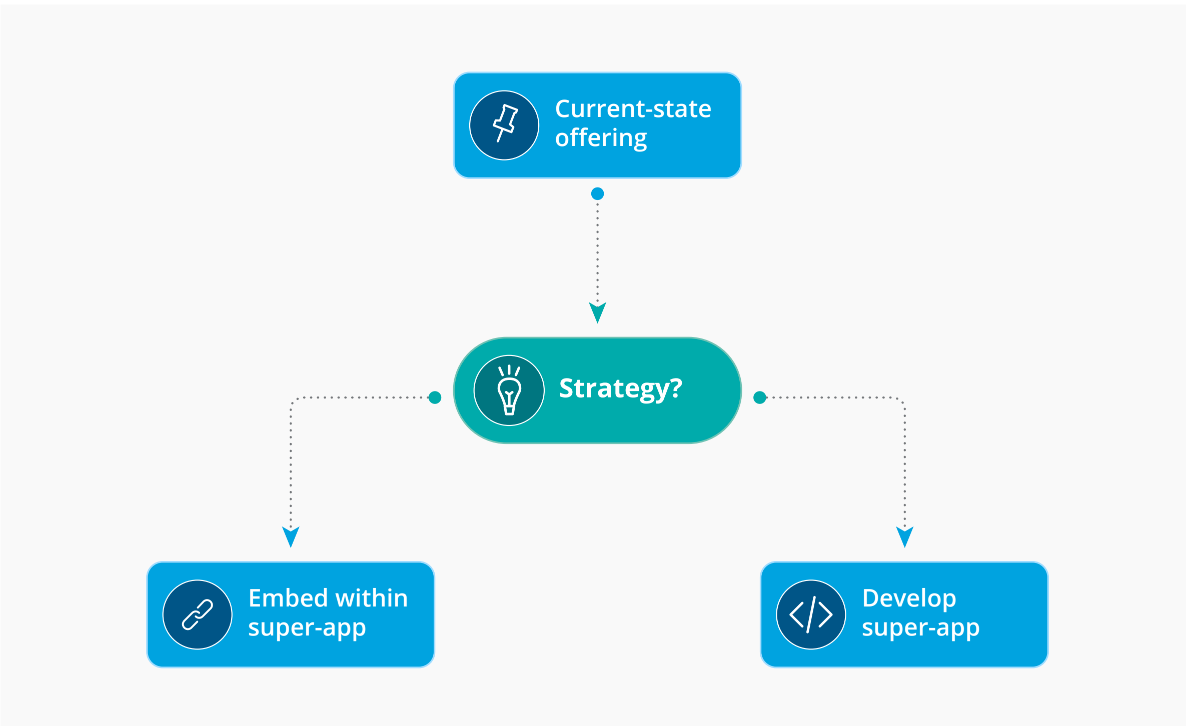
Do added services source new data to amplify current offerings? FIs' scale within the target segments not only provides access to a large client base with a depth of financial data, but also provides unique access to purchase behaviors and lifestyles at an individual customer level. Despite strong data access vis-à-vis other industries, there are notable gaps with respect to online behavioral preferences and social networks that super-apps will be able to fill through a broader range of offerings across service types.

These questions frame the types of services we anticipate seeing integrated in the near term. Combining offerings focused on payments, investing, and wealth management offers users a centralized hub to better control their finances. New value propositions that only exist in the super-app ecosystem arise, like the potential to recommend a loan based on real-time account balances. Hyper-personalized offers act as a guiding force for the user's overall financial well-being. We expect that banks won't simply compete head-to-head on individual offerings but on the quality of their ecosystem and in giving users a holistic picture of their financial health. This more robust offering attracts additional customers, fueling the size—and therefore strength—of the data sets from which insights are generated. These synergies are less apparent across other potential super-app services, making the financial services space a strong contender for initial super-app expansion.

- Mutually reinforcing services
- Brand permission
- Amplifying services through data

How should today's financial institutions get involved?

Super-apps have the potential to disintermediate FIs from their current customers, if not replace them entirely. For the FIs that choose to provide the super-app's embedded payments, borrowing, and banking offerings, customers and their data are a step removed, impacting brand awareness, data access, and margins. FIs are therefore left with a decision: Do we accept disintermediation by embedding in the super-app or try to curate a super-app ourselves?



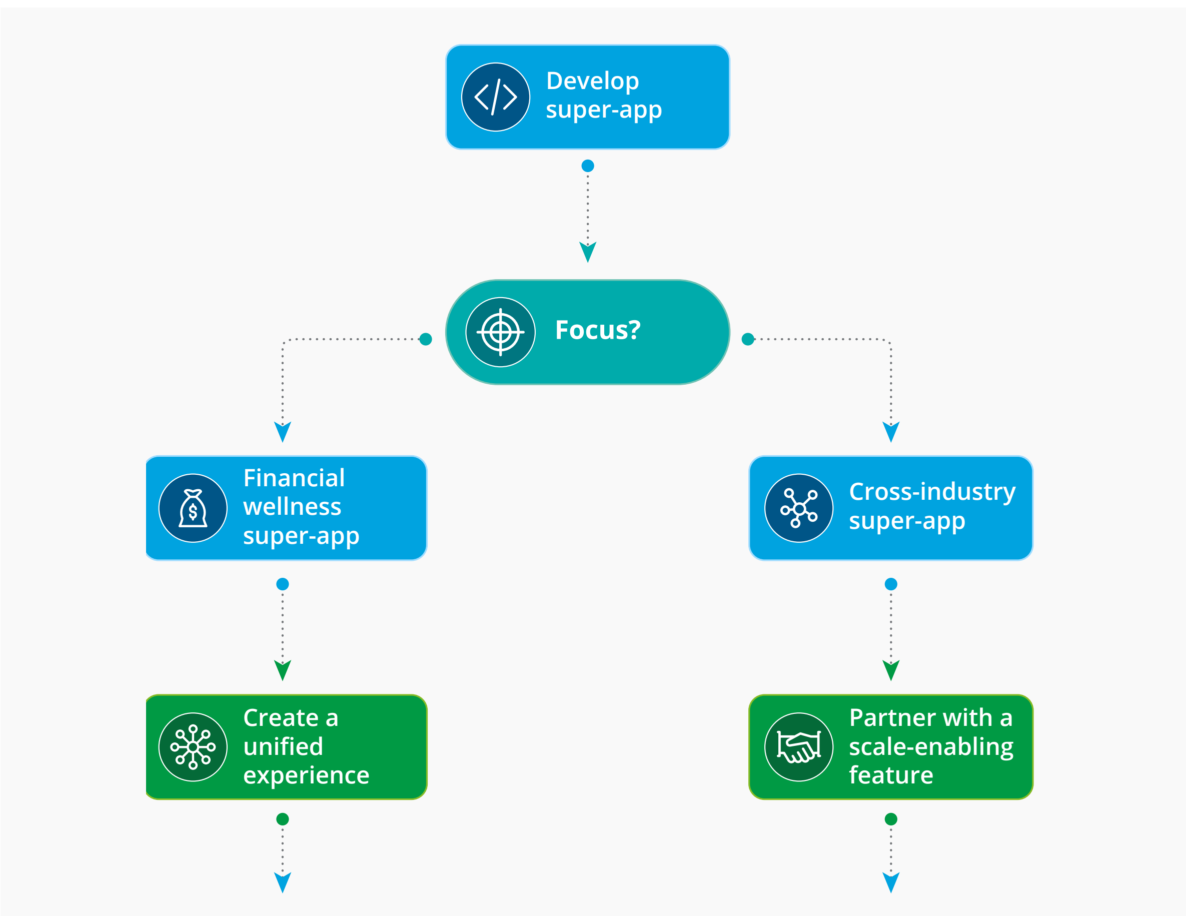
Embed within: FIs can offer their services, branded or unbranded, in another firm's super-app. This strategic response is likely a part of a greater choice to become an infrastructure provider of choice with a modern full-stack Banking-as-a-Service (BaaS) and Payments-as-a-Service (PaaS) proposition. There is growing recognition that BaaS and PaaS offerings will likely continue to mature and, if not provided by their organization, they will be provided by another one. As these as-a-service offerings mature, super-apps and other new entrants will be able to bring innovative offerings to market at a fraction of the time and cost it would traditionally take incumbents.

There is concern by incumbents that taking the as-a-service role results in commoditization, and while that is true to some degree, we believe there is significant room for differentiation in the manufacturing role albeit focused on different factors, such as the quality and breadth of APIs, strength of partnership management capability, etc. Embedding in a super-app could also represent access to untapped market segments. Embedding is likely to leave banks with 75% to 90% of the original revenue pool, depending on the relative power in the negotiation. We expect many to maintain their own native app for core customers while also offering embedded services to extend their reach.

Become the super-app: Transitioning from an FI app to a super-app may help FIs maintain or even grow their share of the client relationship, sidestepping potential disintermediation. In practice, the decision represents a significant shift in business model. Beyond having a scalable platform, an FI-turned-super-app should be prepared to think and compete differently—shifting emphasis from competition based on product and price to monetizing engagement and data. Growing a super-app entails expanding into competitive verticals that extend beyond an FI's traditional focus. FIs may struggle to build scalable nonfinancial services internally, meaning they'll need to pursue an aggressive M&A or partnership strategy with major players to gain lift. Once integrated, the super-app should use open data to bolster the quality and availability of insights between its sub-apps. If the firm is not already structured as a data player, this will likely be a major investment.

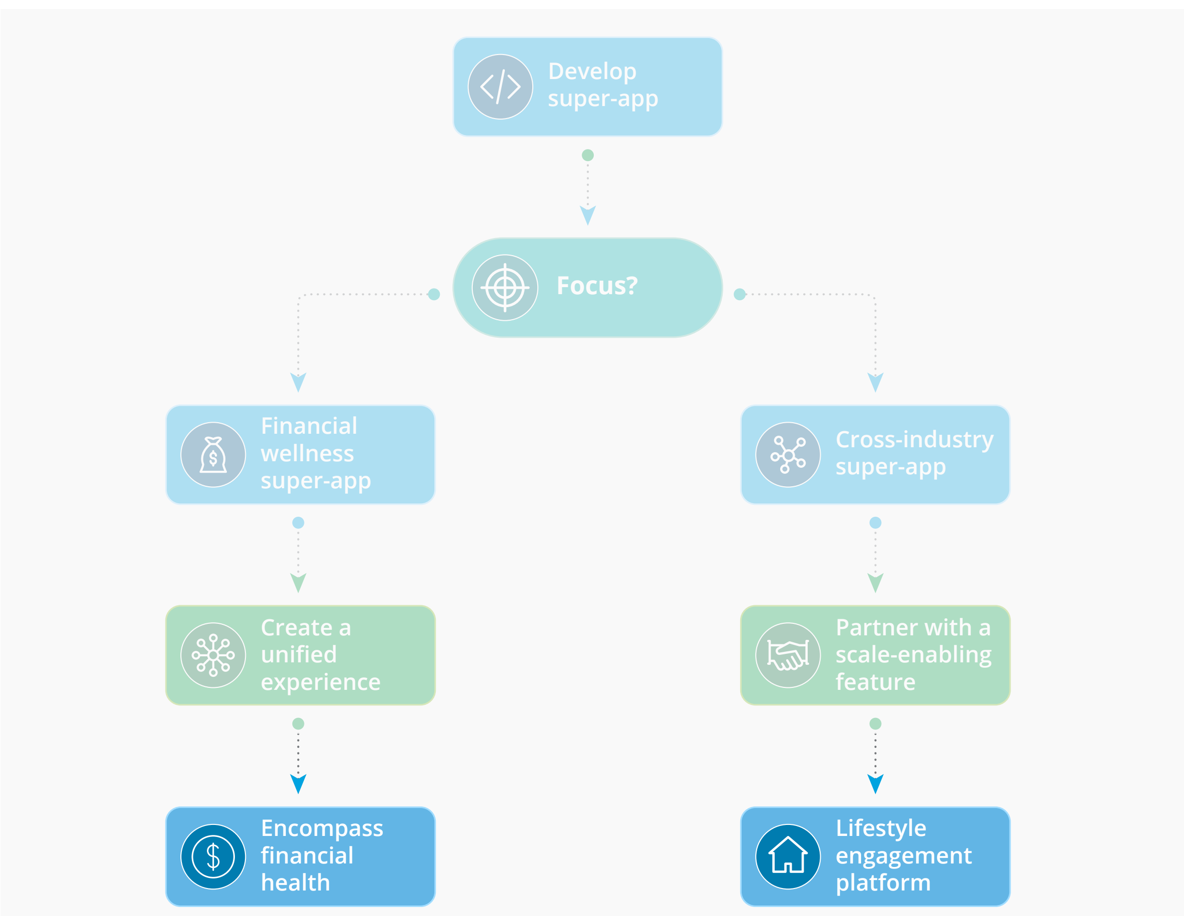
While FIs may not benefit from the same initial scale as popular, free-to-use social media apps with super-app ambitions, they do have advantages: customer trust, comfort in navigating regulatory hurdles, and experience in leveraging financial data to profile and understand customers. These may enable a first-mover advantage in cross-industry offerings that have gone previously unexplored.

In embracing the super-app approach, we see two major directions that FIs could take: (1) continue building an app focused on the consumer or (2) expand laterally to become a broader super-app.



Unify the financial services experience:
The first step in becoming an FI super-app is to unify existing client experiences. Many banking apps are already pursuing this route. To users, they are co-locating their offerings into a single app to improve convenience and keep more connected processes in-app. Behind the scenes, top players are establishing back-end data lakes to create customer-level offers and recommendations. FIs learning from (or acquiring) neobanks and fintechs to prioritize creating all-in-one, personal experiences are on track to outpace more traditional competitors. While banking apps are improving rapidly, the scope of this work has been largely aimed at capturing the shift to digital products catalyzed by the COVID pandemic. Few have delivered the bold play needed to become a financial health super-app—moving beyond digitizing and streamlining existing experiences to delivering financial health outcomes and advice at scale. This represents a fundamental shift in how the FI sees itself—primarily a financial network enabler for customers across banks, brokers, and devices, rather than a credit or lending provider for their existing customers.

Partner with, or acquire, a scale-enabling feature:
A nonfinancial scale-enabling feature might include a social media platform, marketplace, or messaging service. Owning the super-app's source of scale outright might be tempting for its developers, but the unpredictable virality and critical mass required for success in these spaces makes the prospect of building a social offering in-house difficult for FIs. Nascent super-apps should look to partner with, or acquire, popular existing solutions over which they can layer their financial-focused features to create lift. This type of partnership can rapidly grow the volume of traffic but will come with scale complexities and feature a lower percentage of transacting users than FIs are accustomed to seeing. Major data players and those with an existing cross-industry lean may not be deterred, but those reliant on vendor-based data management solutions with associated operating costs can expect a major renovation of their tech stack to accommodate the growth of users.



Encompass financial health: To become a financial super-app, FIs need a customer-centric view of as many financial behaviors and decisions as possible. A super-app may opt to build out or acquire buy now, pay later (BNPL) services, personal finance management (PFM), stock trading, digital wallet, and crypto trading services in addition to existing credit, lending, and other offerings—both to drive revenue and increase stickiness—but a super-app requires scale. The app's goal should be visibility into all transactions—marketplace purchases, point of sale (POS) offerings, and peer-to-peer transactions being key. Long term, the "winner-takes-most" dynamics of these large-scale transaction processes require that the super-app owns a significant share of at least one process to compel adoption from new users. In the cases of marketplace or POS offerings, FIs will likely need to give new focus to their merchant capabilities, which will be critical in the acceptance, and therefore adoption, of any offering. Capabilities enabling these processes can be brought in-app by leveraging partnerships with existing, at-scale leaders (more feasible) or through creating a competing offering (less feasible).

Become a lifestyle engagement platform: The super-app now owns at least one key channel of communication or transaction between its users. At scale, even comparatively low engagement with the app's transacting features can drive substantial revenue. Layering in added functionality through partnerships or acquisitions of existing ridesharing, food delivery, accommodation, marketplace, or entertainment leaders can lower user dependence on apps outside the super-app ecosystem. Users enjoy a better experience across processes, including convenient use of the super-app's payment rails when transacting and seamless handling of their finances through the FI's traditional services. A small percentage of the large volume of transactions happening across the super-app becomes highly profitable. This approach more closely aligns to major, cross-industry super-apps seen throughout Asia. Again, developers need to be objective in assessing how services, when combined, are improving customer experiences in addition to business outcomes.

What are FI attributes for super-app success?

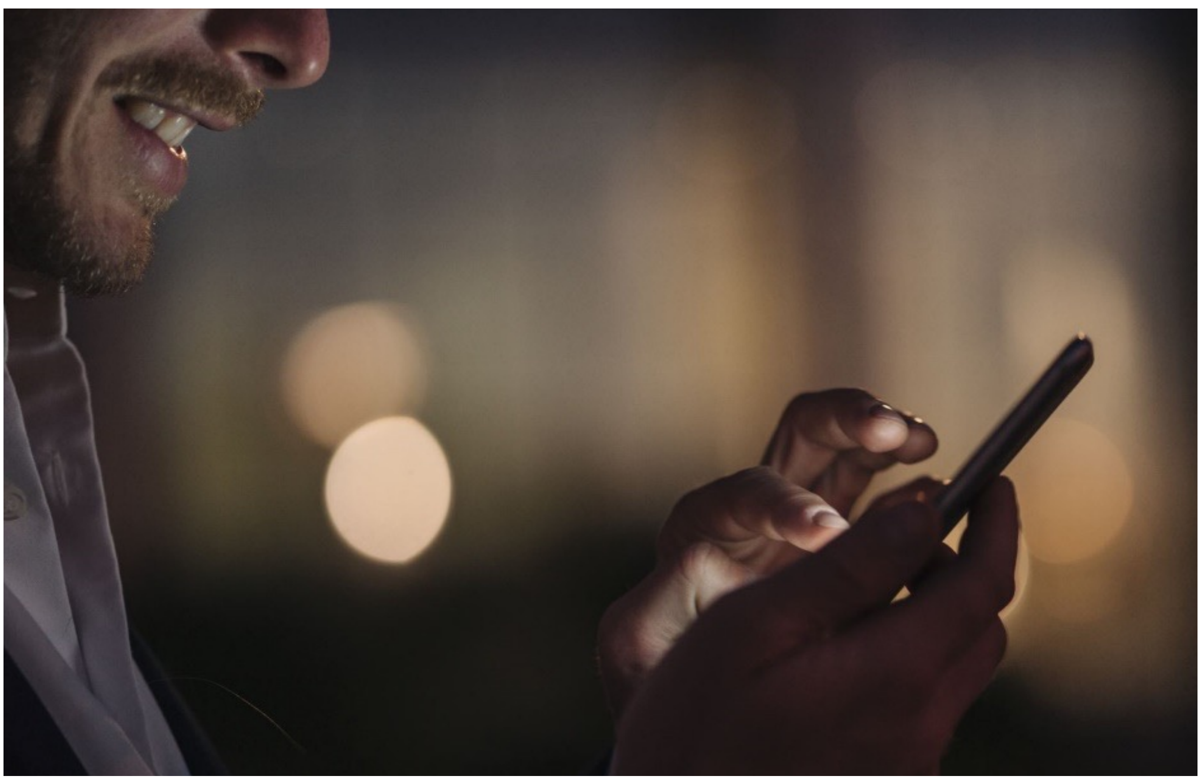
Just as some apps are better suited to become super-apps, some FIs are better equipped to develop them. Even if a firm's services might flourish in a super-app ecosystem, they may be better positioned as a partner. Below are five principles critical for an FI to be successful for the super-app approach.

1. **Encouraging of entrepreneurship:** Firms developing super-apps have a culture of significant transformation versus incremental change. They launch entirely new businesses regularly. They find ways to embed their app everywhere. They're able to do this by being *intrapreneurial*. They might encourage employees to spend 10% to 20% of their time on innovation or dedicate full departments to moon shot ideas, like Grab's innovation arm. Super-apps back frontrunner innovations with capital and gain buy-in to integrate the resultant features into the existing ecosystem through extensive testing. This intrapreneurial approach requires a risk-tolerant culture for the super-app owner, like parent company Tencent's hands-off relationship with WeChat during the super-app's infancy.
2. **Willing to be a loss leader:** WeChat's messaging, despite all its sticker packs for sale, does not drive substantial revenue. Yet it is the firm's primary offering and the only service available for the first two years of WeChat's existence. Without messaging, it's impossible to imagine WeChat's peer-to-peer platform would have reached the ubiquity it enjoys today. Super-apps' core offerings are often scale drivers that drive revenue in other verticals.
3. **Rigorous P&L attribution:** Social/community services in super-apps don't drive much revenue, but they are a key channel for what is often the most profitable feature: payments. With so many symbiotic services integrated under one roof, super-apps must have mechanisms to measure the value of the relationship in aggregate and decompose that value among the various services. While social function might not directly generate revenue, it should be attributed value, allowing for scale and engagement to factor heavily into business decisioning versus revenue in a particular service alone.
4. **Unafraid to partner extensively:** Super-apps are service orchestrators—they rarely own most of their services in full and often rely on shared revenue models. Successful super-apps handle partners in three ways. First, they prioritize partnership management by streamlining their partner vetting processes to shorten time to integration. This is how Gojek partnered with Gogoro to roll out electric scooter and battery services within the Gojek super-app. Second, super-apps create open-access sandboxes for partners to develop new functionality, which then gets plugged seamlessly into the super-app—something WeChat has done with its mini-programs. Third, super-apps maintain teams dedicated to overseeing the establishment and maintenance of partnerships. These teams might juggle constantly shifting roles for governance, create joint steering committees for major initiatives, or establish vesting authority for work management. Companies with either a history of effective M&A strategy or comfort collaborating externally to build products will have the advantage in growing a super-app.
5. **Prepared to renovate:** Super-app code bases are massive, forcing many super-app developers to transition from native build systems, in which most apps today are built, to entirely new platforms. This is a costly, time-intensive process that involves migration issues, team capacity limitations, firm buy-in, and a steep learning curve. FIs need hundreds of strong engineers who are willing to adapt to new ways of working, which could impact worker satisfaction, retention, and workplace culture.

Conclusion

Few industries are spared from the impact of super-apps, least of all financial service providers. As users become more expectant of faster transacting and greater personalization, one-size-fits-all financial products are beginning to fall by the wayside. As of 2020, mobile wallets surpassed credit cards and cash to become the most popular POS solution used today, with 66% of users reporting that their choice was based on convenience and ease of use.[2] BNPL transactions, of which startups are redirecting $8 billion to $10 billion away from traditional banks,[3] already reached $55 billion in US volume by 2021, and are expected to nearly double by 2024.[4] Across financial services, integrating and embedding with financial and nonfinancial products have become key means of driving value in a rapidly evolving market. Traditional players need to consider whether they're currently positioned to benefit from this trend.

To assess the role their firms should adopt in the emerging super-app ecosystem, leaders should think critically on their current operations, where they play today, and what advantages or disadvantages they have in expanding elsewhere. Historically, FIs have not fared well in trying to outperform social media or marketplace competitors on scale with in-house offerings; FIs' best chances of achieving super-app success therefore lie in their willingness to boldly partner with an existing, scale-forward service complementary to theirs. Those that aren't equipped to take such drastic steps to create a super-app, which is most, should move quickly to assess the competitive landscape for potential partners for which they can function as-a-service and begin discussions.



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