

From digital bank account to Super-App

An investigation of the Business Model Innovation Strategy of Banco Inter

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Dedication and Acknowledgements

This final work represents the conclusion of my three years of Bachelor of Science at Bocconi University. I would like to dedicate it to God and to both of my parents back in Brazil who have always given me the support I needed throughout this journey and without whom I would have not arrived at this point.

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Introduction

Since the rise of WeChat as the world's largest stand-alone app in 2018, the concept of super-apps has become popular within the tech community. Offering a wide array of services, from messaging, to banking, and shopping, super-apps originally spread around Asia and have recently been brought to Western Europe and the Americas mainly by FinTech players.

Super-apps are usually born from a single service, directed at a specific customer segment, which is, on time, integrated into an always-growing suite of offerings and customer profiles. Throughout this development, existing business models change, and new ones are created. In order to understand these dynamics, a Business Model Innovation analysis can be applied.

In this present study, we will analyze the business model development of Banco Inter, Brazil's main super-app. Starting as a traditional financial intermediary, then launching a digital bank account, and finally growing into a super-app, Banco Inter offers a complete case for a business model innovation study. Looking at strategy as the set of criteria that guides the development and creation of new business models, this study aims to answer the following research questions:

1. What characterizes the business model innovation strategy that guided the historical development of Banco Inter's super-app?
2. What will guide the choice of the next services or offerings that will be integrated into Banco Inter's super-app in the following years?

In order to answer the above-mentioned questions, we will first start by defining the key-concepts that will guide our analysis such as business model and business model innovation strategy, then move into a brief overview of the development of super-apps around the world, and finally dive into Banco Inter's case study.

Part 1 - Literature Review and Key Concepts: Business Model Strategy and SuperApps

1.1 What is a firm's Business Model?

Throughout the years, literature has found various ways of defining a firm's business model. Chesbrough & Rosenbloom, in their case study of Xerox Corporation's business model innovation, traced the concept of business model all of the way back to Alfred Chandler's "*Strategy and Structure*" book (1962), where he showed how challenges in a firm's growth often required creative responses in its administration (2002).

In the following years, the term was developed by multiple authors, arriving at the more recent definitions of business model like Magretta's, who brought back a series of questions already proposed by Peter Drucker (2002), or Teece's, who said that a firm's business model is its organizational and financial architecture, the business logic required to earn a profit (2010).

Joan Magretta (2002) said that a good business model answers four fundamental questions:

1. Who is the customer?
2. What does the customer value?
3. How do we make money in this business?
4. What is the underlying economic logic that explains how we can deliver value to customers at an appropriate cost?

As explained by Omarini, all business model definitions had the aim of finding a simplified version or "framework" to better understand a business' design, what it offers, and how it is profitable (2019). In 2010, Alexander Osterwalder and Yves Pigneur released their book "*Business Model Generation*" and gave managers and entrepreneurs what has become one of the most widely used frameworks in business modelling: The *Business Model Canvas*.

Composed by nine blocks in one single page, the BMC transformed the approach to ‘creating, analyzing, and modifying business models in the context of visual thinking, which allowed for free experimentation’ (Wit & Dresler, 2021).

Key Partnerships The Key Partnerships Building Block describes the network of suppliers and partners that make the business model work.	Key Activities The Key Activities Building Block describes the most important things a company must do to make its business model work.	Value Proposition The Value Propositions Building Block describes the bundle of products and services that create value for a specific Customer Segment.	Customer Relationships The Customer Relationships Building Block describes the types of relationships a company establishes with specific Customer Segments.	Customer Segments The Customer Segments Building Block defines the different groups of people or organizations an enterprise aims to reach and serve.
	Key Resources The Key Resources Building Block describes the most important assets required to make a business model work.		Channels The Channels Building Block describes how a company communicates with and reaches its Customer Segments to deliver a Value Proposition.	
Cost Structure The Cost Structure describes all costs incurred to operate a business model.			Revenue Streams The Revenue Streams Building Block represents the cash a company generates from each Customer Segment (costs must be subtracted from revenues to create earnings.)	

Fig. 1 Osterwalder & Pigneur's Business Model Canvas (2010)

Despite being represented in a structured, logical canvas, business models are not static. In fact, they should be able to adapt to different circumstances as the uncertain and complex market landscape changes. This movement is often called Business Model Innovation, which is used by companies to gain sustainable or competitive advantage and maintain it throughout time (Omarini, 2019.)

1.2 What is Business Model Innovation?

BCG defines Business Model Innovation as “the art of enhancing advantage and value creation by making simultaneous — and mutually supportive — changes both to an organization’s value proposition to customers and to its underlying operating model.” Yet, what guides these changes to a firm’s proposition and model? In other words, how does a firm respond to the “what’s next?” question?

Here, another key term requires a precise definition: strategy. As for business model, strategy has been defined in multiple ways along the years within research literature, going from Porter’s five-forces-model as early as 1985, to Collis & Montgomery’s triangle of corporate strategy (1998), up to Casadesus-Masanell and Ricart, who said that strategy is that of which

the business model is a realization, or better, a reflection (2010.) In their framework, the authors clarify three important concepts:

- Business Model, as the logic of the firm, the way it operates and how it creates value for its stakeholders.
- Strategy, as the principle that guides the choice of a business model through which the firm will compete in the marketplace.
- Tactics, as the residual choices open to a firm by virtue of the business model it chooses to employ.

Their framework can be visually represented as follows:

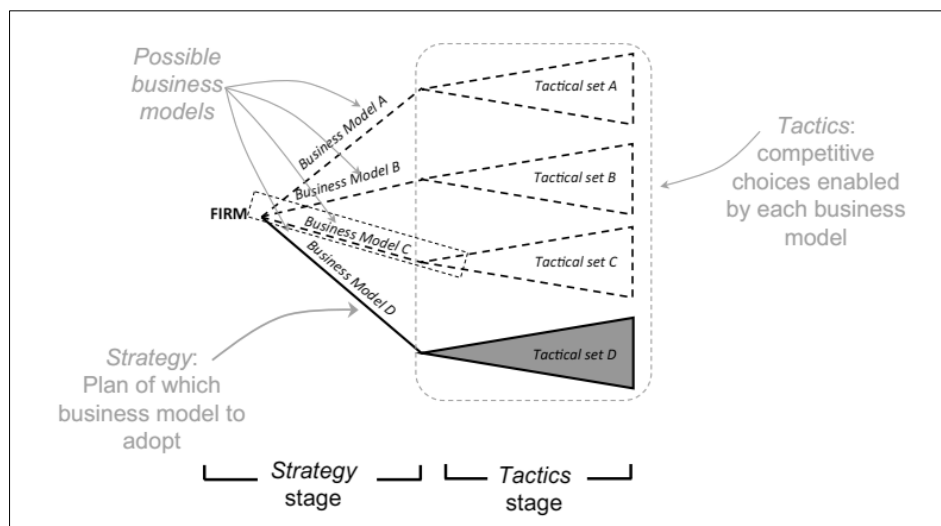


Fig. 2 Casadesus-Masanell and Ricart's Model (2010)

As outlined in Fig. 2, strategy defines which business model to adopt among various possibilities (A, B, C, ...) In the authors' own words, "strategy refers to the contingent plan about which business model to use" (2011). In this sense, strategy is formed by a set of provisions against a range of different contingencies (market changes, macroeconomic phenomena, competitors' moves, or environmental shocks). When choosing a business model based on a defined strategy, the firm's managers then make a set of committed choices with what regards internal codes, critical assets, or governance which are lengthy or costly to reverse. Once the business model is defined, the firm gets access to a tactical set which will cover choices such as price-definition, marketing, research & development, and minor product improvements (Casadesus-Masanell and Ricart, 2010).

As the market changes and new players enter the scenario, a firm's strategy should help it redesign existing business models, allowing for a sustainable competitive advantage.

1.3 Examples of Business Models adopted by FinTech companies

In order to better frame our analysis of Banco Inter's super-app business model, it is important to map a few well-known FinTech business models. As outlined by Da Cruz Caria, most publications on this topic are from newspapers and magazines, although some scientific papers shed light into it (2017.) In this paper, we will consider three models:

1.3.1 Data-Driven Model

Data has become a key resource in the modern business ecosystem. It can influence multiple areas of a business model, from the main value proposition to the creation of complimentary services or the improvement of existing ones, or it can simply be seen as a new revenue stream when data is directly exchanged for money or assets.

There are four main areas to be analyzed when it comes to a data strategy: Data Gathering, Analysis & Processing, Use Cases, and Revenue Streams.

First, data can be gathered either directly from a client (using multiple channels such as mobile app, website, customer center, social media) or from a partner that operates within the firm's ecosystem such as insurance, marketplace, or other service providers (Hartman et al., 2014.)

Second, data is analyzed and processed according to the envisioned future use case.

Third, data can be used in multiple ways, some of which were mapped by Woerner & Wixom in their conceptual paper: data can be directly sold in exchange for money or something perceived of value, bartered in exchange for new tools or services, or wrapped to enrich core products and services (2015.) When it comes to FinTechs, data will be mostly used to creating a more attractive product to services and generate a higher value, although the two other use cases should be kept into consideration.

Fourth, the integration of data into a business model can lead to new revenue streams, either through direct sale or by selling more an improved service.

Data is central for all FinTech businesses, from payments to lending or investments. For example, Credit & Lending FinTechs like *Credit Karma* and *fundera* need to access consumer income, expenses, financial security, or firms' suppliers and buyer invoices, accounting books, and many other information to perform an accurate risk-assessment. In these cases, data gathering is facilitated by the rise of Open Banking and the approval of the European PSD2 regulation, which created a structured mechanism for accessing consumer financial data once their consent is given (Gayner, 2019.) From a technological perspective, the development of API technology facilitated the exchange of information among different data sets and systems (Pwc, 2020.)

Open Banking and PSD2

In 2007, the EU passed the first Payment Service Providers Directive, which accelerated the development of SEPA (Single European Payment Area.) PSD2, which entered into force in Sep. 2019, increased access to financial data, and “[made] it possible for consumers to authorize a third party to access their financial information on their behalf or make payments on their behalf using their bank account” (BBVA, 2019.) In practice, it allowed for use cases such as (McKinsey, 2018):

- Account Aggregation: mobile apps that link all bank accounts, track expenses, and manage savings;
- E-Commerce or P2P Payments: mobile money transfer directly from bank account (without using a card);
- Cross-selling: collect banking data and identify leads for lending, investment, insurance, or utilities offers;
- Identification & Authentication: prove digital identify (e.g. for secure login to tax fillings)

1.3.2 Consumer-Centric Model

FinTechs are known for offering a unique experience tailored to a certain customer segment. Within this context, there are two main areas where consumer-centric innovation happens: product and customer segmentation.

Having a consumer-centric business model often means aligning back and front-office operations to the consumer needs (Sorescu et al., 2011.) In this case, the entire consumer

journey is affected, from the perception of the value proposition to the onboarding phase, and finally to the day-to-day usage of the service (Zomerdijk & Voss, 2010.) As further explained by Zomerdijk & Voss, “the delivery of experience-centric services requires the systematic management and design of customer experiences through the careful planning of tangible and intangible service elements in the service delivery system” (2010). When compared to traditional financial institutions, FinTechs have the advantage of starting from zero and not having to upgrade legacy systems and old processes, making their experience frictionless, digital, and highly customisable from the start. Scott Sanborn, CEO of LendingClub, confirmed that “FinTechs [have the advantage of] starting off with a blank sheet when developing new technologies — as opposed to a product-siloed mindset that has been the hallmark of banking” (Pymnts, 2022). American businesswoman and former government executive Margaret Weichert further complements: “solutions that are winning in the market bring together loyalty programmes, advanced data and analytics and unique business models to deepen customer relationships and drive loyalty” (2017). In this context, data analytics are key to creating customized solutions even at the individual level. LendingClub, for example, uses advanced technology to prescreen mortgage refinancing and extend preapproved offerings based on consumer’s data and on top of that is able to provide insights on discretionary vs. non-discretionary spend, and what they can afford every month to maintain financial sustainability (Pymnts, 2022).

FinTechs usually also define a clear customer segment focus, which allows them to best match customer needs. As Girotra & Netessine explain, “focused business models are most effective when they appeal to distinct market segments with clearly differentiated needs” (2014.) Rosaly, for example, is a French startup that provides salary-advance and personal finance management services for wage earners and company employees (FranceInfo, 2020.) Its platform and technical apparatus (e.g. connection to banks, system of digital accounts) could allow it to serve a number of different customer segments and value propositions, but it chose to focus on a specific part of the population. Naturally, a drawback behind this model is the fact that it may omit other customer needs (Girotra & Netessine, 2014.) Alternatively, as Osterwalder & Pigneur explain, a business model may define several customer segments. Customer-centricity will lie in creating a value proposition “carefully designed around a strong understanding of specific consumer needs” (2010). Payment platforms like Satispay, for example, is carefully designed around two main consumer segments: individuals who want to

perform C2B and P2P payments, and merchants who want to receive C2B payments. While for individuals the main value proposition is easy-to-use payments without a card and with the possibility of receiving cashback, for merchants the key value is of reduced or zeroed payment acceptance fees (Chappuis Halder, 2022).

In a world where customer values and needs change constantly, having a consumer-centric model requires a FinTech to continuously engage with its customers, adapt to changing needs, and reinvent itself through business model innovation (Mcgrath, 2010.)

1.3.3 Ecosystems Model

FinTechs are known for working with all kinds of partnerships to improve their value proposition, either by need or by strategic decision. Henry Chesbrough, American organizational theorist and former director of UC Berkeley's Center for Open Innovation, said that "there was a time, not so long ago, when 'innovation' meant that companies needed to invest in extensive internal research laboratories, hire the most brilliant people they could find, and then wait patiently for novel products to emerge." Today, it is not the same, and "innovation must include business models, rather than just technology and R&D" (2007). An ecosystems business model consists of seeking partnerships with financial and non-financial services companies to capture more clients, optimize the allocation of resources, generate trust, or simply work in a network.

Leveraging on their consumer-centric approach, often times FinTechs offer a higher-quality service than its traditional counterparts. Yet, they still face plenty of difficulties in reaching their potential customers. One way that firms grow through business model innovation is by adopting growth partnerships that take place through sharing customer data within an ecosystem (Chesbrough & Schwartz, 2007.) According to Anandhi Bharadwaj, Professor from Goizueta Business School, "digital business strategy extends the scope beyond firm boundaries and supply chains to dynamic ecosystems that cross traditional industry boundaries" (2013). For example, in 2019, T-Mobile, the US-based mobile operator, partnered with BankMobile (now called Bmtx) to offer a no-fee, mobile-first checking account "T-Mobile MONEY" (NRF, 2021). In this case, Bmtx provides all of the banking infrastructure through a BaaS ("Banking As A Service") model, while T-Mobile is responsible for front-end operations such as marketing, customer-acquisition, and growth (T-mobile, 2019).

Banking As A Service

Banking as a Service (BaaS) is a model in which licensed banks and financial institutions integrate their digital banking services directly into the products of other non-bank businesses. This model is particularly attractive to large aggregators of consumers such as mobile carriers, utilities providers, retailers & marketplaces, ride-hailing & food delivery apps, which can offer their customers digital current accounts, debit & credit cards, loans and payment services without acquiring a banking license of their own (Finextra, 2021).

FinTechs may also create partnerships to optimally allocate resources and activities among different players. These partnerships can create economies of scale & scope, generate more efficiency, and ultimately reduce costs (Osterwalder & Pigneur, 2011.) One way that they can be concretized is simply through the acquisition of resources or activities from partners). In this scenario, firms can be so intertwined in their ecosystems that their business cannot operate independently from their alliances, partnerships, and competitors (Bharadwaj, 2013). Revolut, for example, was noted by McKinsey senior partner Vijay D'Silva for its "progress toward building a payments-based ecosystem" (2022). With a growing range of offerings, Revolut currently offers foreign exchange, payment cards, cryptocurrencies, equity trading, insurance, and travel services. To operate, Revolut rely on various partners such as "Tink" for payments directly from other bank accounts through Open Banking, "Paxos" for cryptocurrency trading, and "BeraingPoint RegTech", a smart solution for national and international prudential reporting (Tink, 2022; Regnology, 2021; Techcrunch, 2020).

Other business models are naturally born in networks. Woerner & Wixom see in digitization a propelling force to these models, which generate a "coordinated networks of companies, devices, and consumers that create value" (2015.) For example, Zelle, a P2P no-fee instant money transfer solution, is owned by seven of US's largest banks, including Bank of America, JPMorgan Chase, and Wells Fargo (Forbes, 2021.) In this case, as more banks and consumers enter the Zelle ecosystem, a positive network effect is generated, and the value of using it increases for all stakeholders. In fact, "as more products and services become digital and connected, network effects become the key differentiator and driver of value creation" (Bharadwaj, 2013).

Finally, when it comes to financial services, trust is a crucial factor. Customers have often used a single provider for their entire lifetime and changing services often pose a significant perceived risk (Ennew & Sekhon, 2007.) FinTechs are overcoming this challenge by improving digital onboarding experiences, or directly partnering with well-established financial institutions. For example, a Danish fintech called Subaio, which provides customers an easy way to manage their subscriptions and recurrent payments, partnered with ABN AMRO to offer this service to the bank's clients in their "Grip" app (Subaio, 2020). On the other hand, regulatory bodies also require specific licenses and impose barriers to entry that are difficult to overcome by an early-development firm (Llewellyn, 2008.) Revolut, for example, works with authorised credit institutions in the US to be able to operate and provide protection for the consumer funds before it obtains a full US banking license (Revolut, 2020).

1.4 What is a Super-App?

Super-apps arise from digital companies that gain traction in solving one issue for the mass market, acquiring a large customer base, and then quickly realise the great potential of offering complimentary services in a unified, single platform. Initially developed in Asia, and still mostly concentrated in the region, super-apps are "umbrella" apps that offer a full ecosystem of services shaped around users' everyday lifestyle needs (Mallik and Debashis, 2021).

In China, for example, WeChat grew from a simple messaging and photo sharing app into a giant with over 1 billion active monthly users and an offer that mixes social media, gaming, services, and shopping. Rappi, on the other hand, started as a food & package delivery app in Colombia and has expanded into other business lines such as travel booking, vehicle insurance, cash delivery, gaming, live events, and bets, all integrated into one super-app (Diaz Baquero, 2021).

integrate the so-called “golden triangle of ecosystems”, unifying finance, e-commerce, and social networks & logistics (2021).



Fig. 4 The golden triangle of Ecosystems (Fasnacht, 2021)

In Brazil, Banco Inter emerges as one of the country’s leading super-apps. It reached 20 million clients in 1Q21 and counts with more than 400 partners for its mobile-banking, credit, insurance, investment, and marketplace solutions. Given its exponential growth since the launch in 2019 and its dynamic business model, Banco Inter’s strategy was chosen to be investigated in the section below, focusing both on what guides its business model choices and how do they assess and choose the next service to be launched into their super-app.

Part 2 – Banco Inter Case Study

2.1 Why should one study Banco Inter's business case?

In order to analyze the business model innovation strategy that has emerged with Super-Apps, a case study can be extremely efficient. It does not only allow us to see the innovation in business model in action as a company changes their offerings, but also to perceive how the market and consumers react to it. Based on this understanding, three criteria were used in the choice of the case study:

- 1) Availability of Information
- 2) Strong business model change
- 3) Relevancy and presence in a certain market

Banco Inter positively replies to all of these criteria. As a public company, it provides reports and historical data on its operations from 2012 onwards. Starting as a financial intermediary (loan provider), then becoming a digital retail bank, and finally launching a Super-App was only possible with strong business model changes. Finally, with more than 20 million customers in Brazil, it is one of the most relevant players in the market.

2.2 Sources and research methodology used in this study

This study will be performed in an exploratory, interpretative, and qualitative approach using mainly the reports available in Inter's Investors Relations section, direct observation from their Super-App and website, as well as an interview with a manager.

Inter's reports are released every quarter and are mostly of three types:

- 1) Managerial Reports and Financial Statements;
- 2) Institutional Presentation about strategy, financial performance, and future outlook;
- 3) Operational Preview with key quarterly figures for each business line.

The interviewed was performed with Eduardo Lopes, Inter's Head of Growth and Business Development. He is responsible for new product launches, M&As, and partnerships. The information he provided will complement the research throughout the entire case study.

Leveraging on the theoretical models defined in the literature review session, this case study will be structured in the following way:

- History and Timeline, with an introduction to Inter's history and strategic choices (Chapter 2.3)
- Inter's Super-App Today, with a description of the main services offered in the current Super-App version (Chapter 2.4)
- Inter's Business Model, with Inter's Business Model Canvas and how it relates to the three FinTech business models that were delineated in the literature review (Chapter 2.5)
- Inter's Strategy, with the answer to the first research question regarding what characterized the strategy that guided Inter's historical development (Chapter 2.6)
- Inter's Future, with the answer to the second research question which outlines what will influence Inter's future product launches and business modelling (Chapter 2.7)

The case will finish with a conclusion (Part 3) where we recap the entire work and the most important insights that were generated.

2.3 History and Timeline: an introduction to Banco Inter's recent strategic choices

Banco Inter was founded in 1994 as "Intermedium Financeira", the credit branch of MRV Engenharia S.A., a real estate construction group founded by Rubens Menin. Its initial objective was to provide credit to the group's clients who were often from the "middle-class" and did not have access to real estate financing in traditional banks. In a few years new offerings were added such as corporate and payroll loans.

The Menin Family

Rubens Menin founded MRV Engenharia in 1979, and turned it into one of Latin America's largest real estate developer. Even after the IPO of Banco Inter in 2018, the family has kept its high involvement: João Vitor Menin, Rubens' son, is currently the CEO, while Rubens himself is the Chairman of the Board and Maria Fernanda Menin, his daughter, is a board member. The family keeps the company's control with 35% of shares and 84% of voting rights.

According to Mr. Lopes, the family's presence and control has allowed Inter to make strategic choices with a long-run vision. He gave the example of Inter's credit card policy. Instead of following what traditional players in the Brazilian financial industry adopted,

which involved giving high amounts of credit with a very low credit criteria and compensating with high interest rates, Inter chose a more conservative approach. They apply a more restrictive credit policy, providing credit only to those clients who can really afford it, and having one of the lowest interest rates in the market (BCB, 2022). As a result, they would have a more financially sustainable client base with a higher lifetime. As Mr. Lopes said, this is the type of “bold decision” that could only be taken because the family chose to look into the long run.

Inter’s first big step was achieved in 2008, when it obtained a full banking license from the Central Bank of Brazil, allowing it to operate also as a commercial bank and changing its name to “Banco Intermedium.” With the license, Inter continued to amplify its range of financial services, launching its own insurance business in 2012, “Intermedium Seguros”, and its brokerage and securities dealer in 2013, “Intermedium DTVM.”

Still a regional bank and operating mostly in the state of Minas Gerais (second Brazilian state, by population, with 21 million inhabitants – Statista 2021), Banco Inter launched its Digital Account in 2015, entering retail banking and starting a complete change in the bank’s strategy. It was Brazil’s first 100% digital bank that offered a totally fee-free checking account and integrated it into a financial services platform.

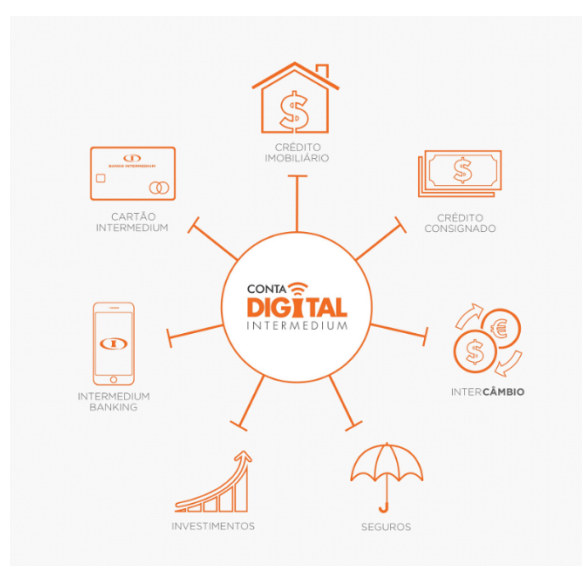


Fig. 5 Inter's digital account in 2016

Another incentive for launching Inter's Digital Account

According to Mr. Lopes, around 2015, Intermedium arrived at a stage where it had to increase its credit funding sources. Given that it already had a full banking license provided by the Central Bank, Inter's executives found the best solution to be collecting retail demand deposits, which are the cheapest sources of funding. Without a network of banking agencies nor a structure for retail banking, they had the idea to develop an asset light, digital account model.

In 2016, the Digital Account received its first core additions: the offering of a Mastercard multiple credit card and foreign exchange operations. At year-end, Inter had already 80,000 digital clients. As it grew its digital strategy, the bank did not expand its physical branches as other traditional banks would normally do. This choice allowed them to maintain low fixed costs and increase its profits as new clients joined. Whether for traditional players more clients also meant increasing its physical structure and payroll, Inter was able to allocate investments in making its technology more efficient and safer.

In 2017, the bank finally changed its name to "Banco Inter", reflecting the evolution of its business model from a financial intermediary to a consumer-facing digital bank. Other banks like "Banco Bonsucesso" followed the same digitalization and name-simplification trend and was rebranded as "BS2" (Arroyo, 2018.) At year-end Inter had already 370,000 accounts opened, 4.6x the previous year's number.



Fig. 6 Changes in branding of Inter

In the beginning of 2018, Inter migrated all of its services to Amazon Web Services, becoming the first bank in Latin America to operate in-cloud. Leveraging on its growth and profitability history, Banco Inter realized its IPO in B3 in April as the first digital bank to be listed in the Brazilian Stock Exchange. In December, Inter also launched PAI, its open investment platform through which accountholders could purchase stocks, fixed-income, and other securities. At year-end, more than 1.4 million accounts had been opened.

2019 saw the launch of many functionalities are at the core of Inter's offer today. In May, a partnership with "Wiz Soluções" allowed for the expansion of insurance operations. In the following month the bank collected more than 1.2 billion BRL in a subsequent offer of shares (follow-on), bringing to the firm an important strategic investor: SoftBank. In November, Inter launched its first version of the self-called "Super App", which included a new range of non-financial services such as e-commerce shopping with cashback, food delivery, ride hailing, and parking. At year-end, there were already 4 million accountholders, with high recurrence and engagement (108 million logins in 4Q19) and a very young customer base (70% of digital account clients were below 36 years old.)

Despite the COVID-19 pandemic, 2020 was a year of strong growth for Inter. In January, they acquired "DLM Invista", which became "Inter Asset", the bank's Wealth and fund management division. They also launched "Plataforma de Proteção", a platform that centralizes health, dental, travel, automotive, residential, life, and all other insurance offerings. In May, "Intercel" was launched, Inter's independent cellphone carrier. In July, the first "Inter Day" was a landmark in Inter's history. By creating partnership with large e-commerce retailers, Inter promoted its own sort of "black Friday" – a day with unexpected discounts which reached a total of 30 million BRL in GMV (Gross Merchandise Volume) in the first 24h of campaign. In September another follow-on stock offering brought another 1.2 billion BRL in investments and at year-end, Inter had more than 8 million accountholders.

2021 was marked by continuous growth through partnerships and acquisitions. In May, an agreement with Sampo Seguros enlarged Inter's insurance offering, which already counted with "Wiz" and "Liberty Seguros" as core partners. Following, a partnership with ABC Brasil, a bank specialized in the origination and structuring of infrastructure debentures and private credit, increased Inter's portfolio of solutions offered to clients (Inter, 2021). The second half of the year came with the announcement of the acquisition of USEND, a US-based fintech that offers a digital account with foreign-exchange and payments services, culminating in the launch of an international account native in the Super-App.

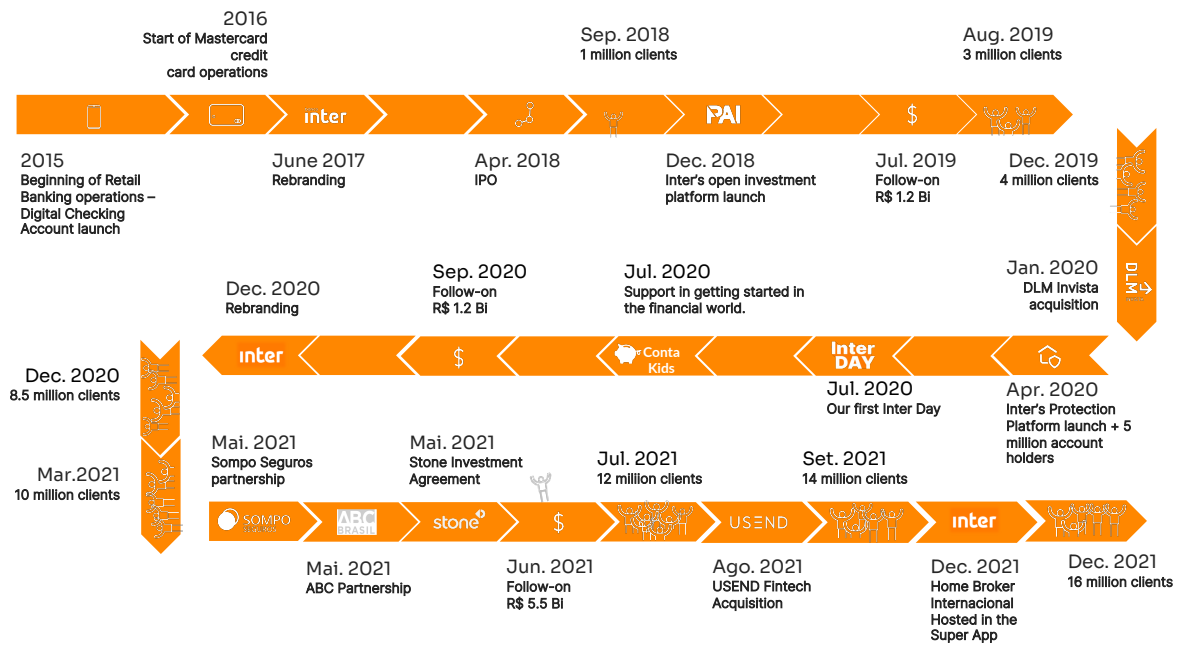


Fig. 7 Inter's growth since the launch of the Digital Checking Account (2021)

As of May 2022, Inter has more than 20 million accountholders. It offers a complete digital ecosystem to simplify its clients' lives, focusing on day-to-day banking, investment, credit, insurance, and shopping.

2.4 Inter's Super-App Today

As presented in the company's institutional presentations, Inter Super-App has the goal of making consumers' lives easier by joining several products and services at the same place in a 100% digital form (2021). It is currently divided in five categories of services: Day-to-day Banking, Investments, Credit, Insurance, and Shopping.

Day-to-day Banking	Investments	Credit	Insurance	Shopping
Cards	Investment Brokerage	Real Estate Credit	Life Insurance	InterShop Marketplace
PIX (Instant Transfers)	Foreign Exchange	Payroll Loan	Health Insurance	Gift Cards
Bar-code Payments	Savings Account	Corporate Credit (Collateralized SME Credit)	Private Pension	Restaurant Benefits Program (Duo Gourmet)
Transfers	Global Account	Agribusiness Loans	Auto Insurance	Food Delivery
Deposits		Pre-purchase financing pool	Residential Insurance	Travelling
Salary Account		Credit Renegotiation	Travel Insurance	Mobile Games Subscription (Inter Arcade)
Scheduling			Cell-phone Insurance	Online Courses (Learn In
Automatic debit			Financial Protection	Mobile Carrier (Inter Cel)
Micro-entrepreneur Account (Conta MEI)			Credit-Card Insurance	Parking Tickets (Rotativo Digital e Estacionar)
POS				Toll Tag (Inter Tag)
				Car Fuel Payments (Shellbox)

Fig. 8 Products & Services currently offered by Inter (2022)

In Day-to-day banking, customers have access to a fee-free digital checking account, deposits, wire transfers, credit, and debit cards, as well as tools for micro-merchants such as a special “Microenterprise Account” with invoice payment barcode generator and a mobile POS terminal (Inter, 2022. “Microenterprise Account.”)

In Investments, “Inter Invest” is a Home Broker integrated directly into the Super-App that allows customers to autonomously buy and sell stocks, funds, titles, derivatives, and other securities (Inter, 2022. “Investimentos.”) Inter also has its own brokerage and fund manager, “Inter DTVM”, which sells its non-listed, self-managed and third-party investments funds, with a significant concentration on Real Estate (Inter, 2022. “Inter DTVM.”) The Super-App also has a strong foreign exchange offering, allowing consumers to send and receive international remittances (Inter, 2022. “Cambio.”). Since the acquisition of USEND in 2021, customers can already open a Global Account denominated in USD in the Super-App, but all features from payments to transfers and withdrawals are still concentrated in USEND’s app. Inter said in the last report that it will integrate all of USEND’s functionalities in the Super-App throughout 2022 (Inter, 2022. “Conta Digital Internacional”).

In Credit, Inter offers a wide variety of loan and financing offerings that can be initiated directly from the Super-App. For example, when looking for a payroll loan, customers can input in the app how much they need, in how long they want to pay, simulate the loan conditions, and send a request. The same applies for Real Estate financing: as a digital-first player, Inter collects all of the data needed by consumers to create a loan financing simulation, reducing the cost of customer support services (Inter, 2022. “Crédito para o que você precisar”).

In Insurance, consumers can also simulate and purchase directly on the Super-App a range of offerings, from life and auto to cellphone, residential, travel, or health insurance (Inter, 2022. “Seguros.”) For example, health insurance plans from a variety of providers can be purchased 100% digitally, without the need to talk to a customer assistant. Customers must fill in information such as affiliation to a union, upload relevant documents, answer a quiz for basic health data, pay, and a request will be automatically sent (Inter, 2022. “Seguro Saude”).

Finally, in Shopping, Inter has its “Inter Shop” offering: a marketplace integrated to the Super-App where customers can buy various products and services and receive cashback. As of May 2022, it counts with more than 650 thousand SKUs offered by 827 Sellers including players such as Decathlon, Amazon, Alibaba, Booking, Trainline, and Rentalcars. Inter Shop also offers “Mais Limite”, the option substitute cashback by increasing the credit card limit to buy within the marketplace (Inter, 2022. “Inter Shop”).

2.5 Inter’s Business Model

In order to deliver the value proposition of “making consumer’s lives easier by joining several products and services at the same place in a 100% digital form”, Inter developed a completely new business model. As anticipated in the Literature Review & Key Concepts Section, Osterwalder & Pigneur’s Business Model Canvas will be used as a tool to understand how Inter’s business model is designed, operated, and profitable.

2.5.1 Customer Segments

Inter’s customer base is 80% composed by individuals under 40 years old. The bank further segments them in three distinct groups: switchers (population with account on other banks), millennials (population from 18 to 25 years old), and unbanked (population with no bank account.)

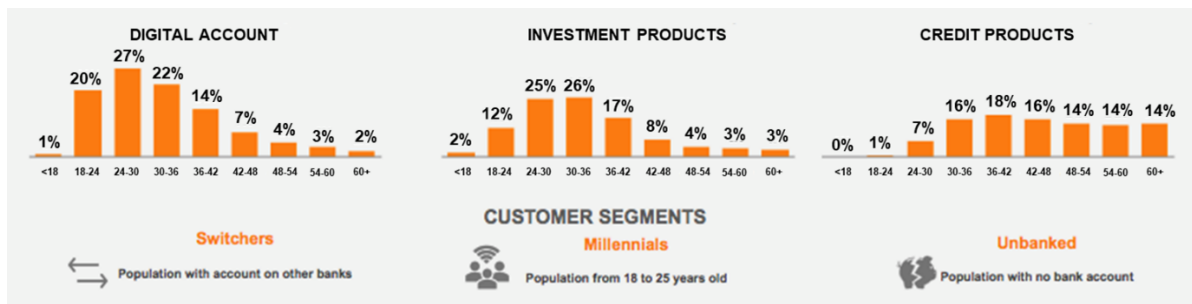


Fig. 9 Inter's Customer Segments (1Q19 Institutional Presentation)

When it comes to the use of different products, the digital account and investment products have a younger user base (more than 80% between 18 and 42), whereas credit products are more spread around the more senior end of the spectrum (48% between 42 and 60+.)

Given the clear customer segmentation by Inter's management, the bank can pursue a consumer-centric business model, creating new products and features that respond to each segment's necessities. For example, "Switchers" can easily make Inter their main salary account by filling a simple form within the Super-App. As a further incentive, clients who change their salary account to Inter receive benefits such as the "Platinum" card that offers 0.5% cashback in every purchase (Inter, "Portabilidad de Salario", 2021). For the "Unbanked", on the other hand, Inter's 100% digital onboarding experience, its maximum analysis period of 3 days, and its fee-free account are crucial features. Finally, "Millennials" and Gen. Z have their day-to-day activities simplified through the Super-App, be it managing their own money, investing, or purchasing on the e-commerce marketplace where they receive cashback.

2.5.2 Value Proposition

Inter launched its digital current account in 2014 to fight the problem of costly financial products, bad user experience in time-taking physical branches, bureaucratic processes, and ultimately a very concentrated banking market (Inter, "1Q22 Results", 2022). Its initial value proposition was to create a cloud-based, 100% free mobile current account with a best-in-class user experience.

Today, after the expansion into several business lines and the launch of the Super-App, Inter's value proposition is to offer a complete digital ecosystem to simplify people's lives. They address a customer pain point: increased friction in the use of day-to-day digital services. Think, for example, of an average Inter customer: a young man or women, under 36 years old,

who has recently achieved financial stability. They will have around 110 apps installed on their phone, and use around 46 of them (App Annie, 2021). They might have one or two banking apps for managing their money and performing bank transfers, a P2P payments and digital wallet app such as PicPay (more than 60 million customers in Brazil as of Nov. 2021) to pay friends or businesses in exchange for cashback, a stock-market investment app, a cryptocurrency exchange app, a credit-card app to manage credit card expenses, limits, and monthly payments, an insurance app for purchasing and checking the status of insurance contracts, online shopping apps both from DTC brands like Nike and marketplaces such as Amazon, a car parking app, a few food delivery apps such as Uber Eats or Rappi, a cell-phone plan carrier app, among others (Alvarenga, 2021). As users switch from one app to another, every service requires creating a new account, reinserting data, often adding credit card information, paying fees when moving funds from the bank to digital wallets or investment platforms, and overall facing a lot of friction. With Inter's Super-App, users get access to day-to-day banking, investments, credit, insurance, shopping, and cross-border services integrated in one single account and with no fees.

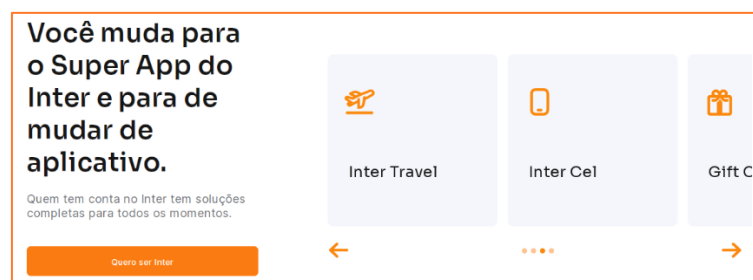


Fig. 10 Inter's home-page: "You change to Inter's Super-App and stop changing apps. Who has an Inter account has complete solutions for all occasions." (Inter, 2022)

The Super-App also enables specific use cases such as supporting the customer during an international trip. In the interview, Mr. Lopes mentioned that once the next version of the Super-App comes out, a customer travelling abroad will be able to buy the plane ticket, book the hotel, rent a car, contract travel insurance, and hold a USD-denominated account with a debit card, all within Inter's ecosystem. He further complemented by saying that once your goal is to simplify people's lives, a symbiotic relationship grows as one service complements the other and you end up developing an outstanding user experience.

2.5.3 Channels

The channels describe how Inter communicates with and reaches its customers to deliver its value proposition. We can distinguish between two major categories: customer acquisition and product or service delivery channels.

Inter's customer acquisition channels are all of its marketing & communication channels, including:

- Inter Blog, which publishes content on personal finance management, financial markets & regulation, institutional content, entrepreneurship, product tutorials;
- InterResearch portal, which publishes reports that range from macroeconomic scenarios, domestic and global, to a thorough analysis of many microeconomic and financial indicators of companies listed on the Stock Exchange;
- Inset, a News Portal, with content on personal finance, career development, lifestyle, technology and games;
- InterInvest Podcast, where the speakers address market issues, with the main facts and events that drive Inter's investments and funds;
- YouTube Channel, with content on financial organization, news from financial markets, macroeconomic analysis, and investments;
- Twitter, with main information and facts of the financial market daily, besides news of Inter's platform and their campaigns;
- Instagram, with financial education content;
- Newsletter, with highlights of content on the blog, YouTube channel, Podcast, and Twitter.

Inter's product or service delivery channels are, instead, the Super-App and the Web Portal, as well as the physical debt and credit cards and the partner ATM network through which clients can get free and unlimited withdrawals in more than 24 thousand locations across Brazil.

2.5.4 Customer Relationships

Inter is digital-only and has no physical branches. In the 2021 Annual Report, they reported an average of 1.7 million human interactions per month, which largely occur through chat, telephone, social networks, applications, and Reclame Aqui (Brazil's main complaint website.)

Besides the 24/7 telephone line and more than 1,000 articles written in the Customer Assistance section, Inter has significantly increased its levels of digitalization and automation. In 2018 they launched Babi, a virtual assistant responsible for solving customer requests through Artificial Intelligence. The team of experts who has already developed 70 automations and is dedicated to improving conversational design has brought Babi to solve more than 6 million requests in 2021, with a 60% retention rate, representing the equivalent work of 1,445 human operators or 1.1 million calls per month. Babi's service volume still represents less than 0.41% of accesses to Inter's Super-App, showing that most customers solve their self-service demands.

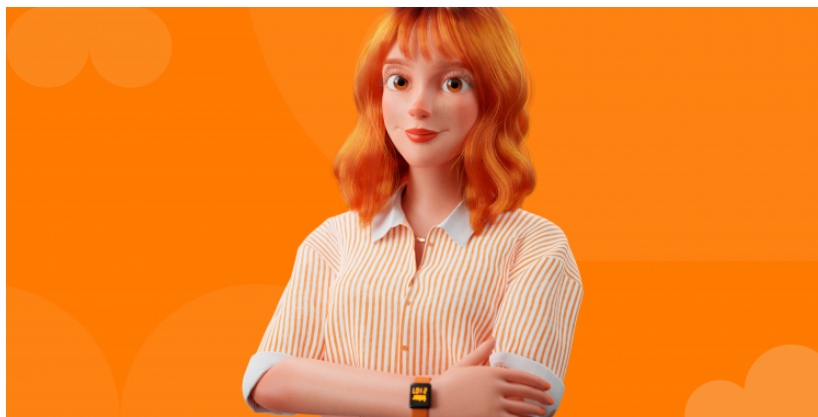


Fig. 11 Babi, Inter's virtual assistant (Inter, 2021)

When it comes to the quality of customer service, Inter has achieved in 2021 a NPS of 83 points. The metric is measured with the following question at the end of the customer assistance: "From 0 to 10, what is the probability that you will promote Inter's services to other people?" Finally, for what regards the percentage of First Call Resolutions, more than 95% of interactions from customers are solved in the first contact (Inter, "Annual Report", 2021).

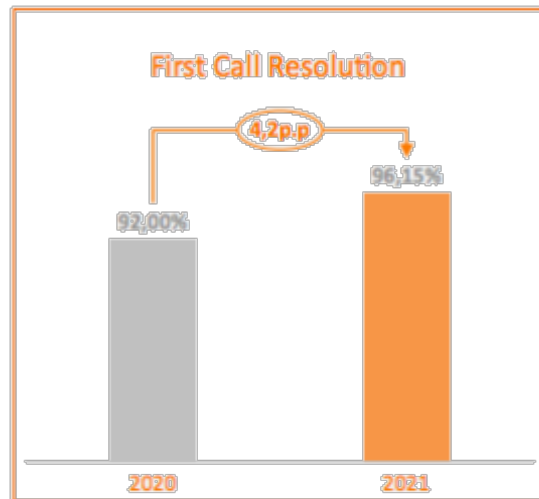


Fig. 12 Inter's first call resolution level (Inter, 2021)

2.5.5 Revenue Streams

Inter's revenue streams can be classified in two major groups: financial intermediation (gross interest income) and services (fee income). In the first quarter of 2022, 58% of total revenues came from financial intermediation and 42% came from services. This scenario is much different than in 2017-2019, when financial intermediation was responsible for up to 92% of revenues, pointing to the enormous business model innovation that Inter went through in the past years.

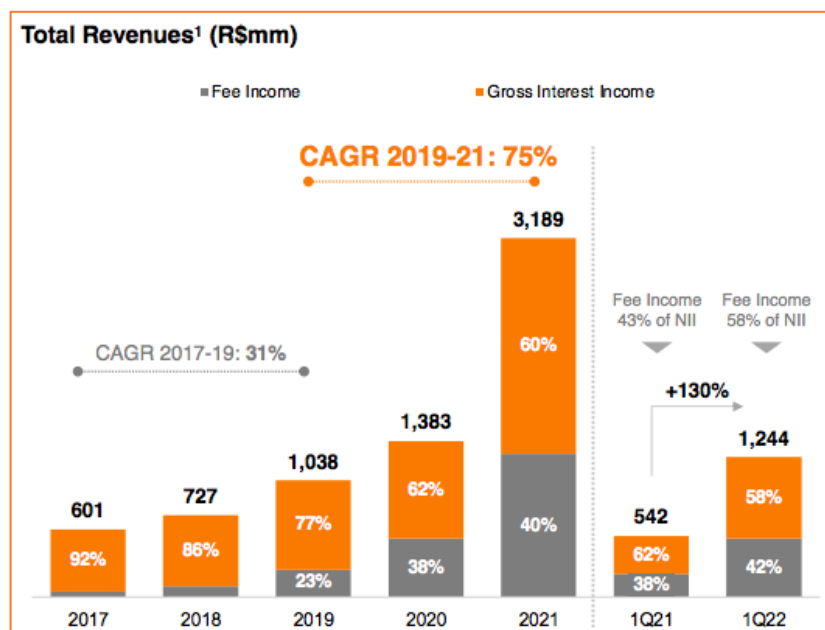


Fig. 13 Total Revenues 2017-2022 (Inter, 2022)

Within financial intermediation, 67% of income in the first quarter of 2022 came from credit operations, whereas 33% came from other financial revenues. Credit revenues were segmented as 34% coming from Real Estate credit, 46% from consumer credit, 18% from credit to SMBs, and 2% coming from other credit products.

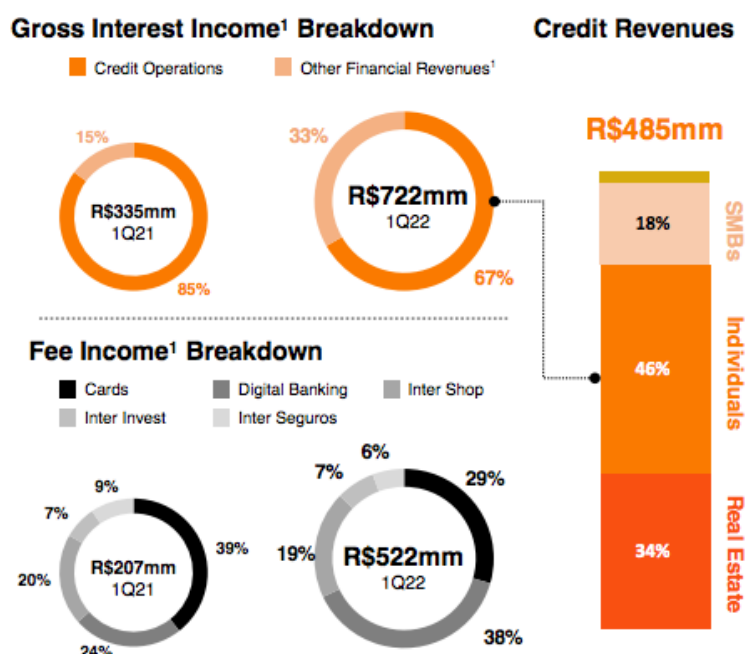


Fig. 14 Gross Interest Income and Fee Income breakdown (Inter, 2022)

When it comes to fee income from services, most revenues came from digital banking (38%), followed by cards (29%), InterShop marketplace (19%), InterInvest brokerage and financial advisory (7%), and Inter Seguros insurance services (6%). The increase in the relative importance of digital banking revenues when compared to 1Q21 is due to a 532% increase in floating revenue coming from the investment of the balance of demand deposits at 100% of the CDI rate (Brazil's interbank deposit rate). In 1Q22, Inter's demand deposit balance increased 37% YoY, and the Selic (Brazil's federal funds rate, to which CDI is linked) increased from 2% in March 2021 to 12.75% in May 2022, creating one of the world's steepest monetary tightening processes and causing an exponential increase in Inter's floating revenue (Ferraz, 2022).

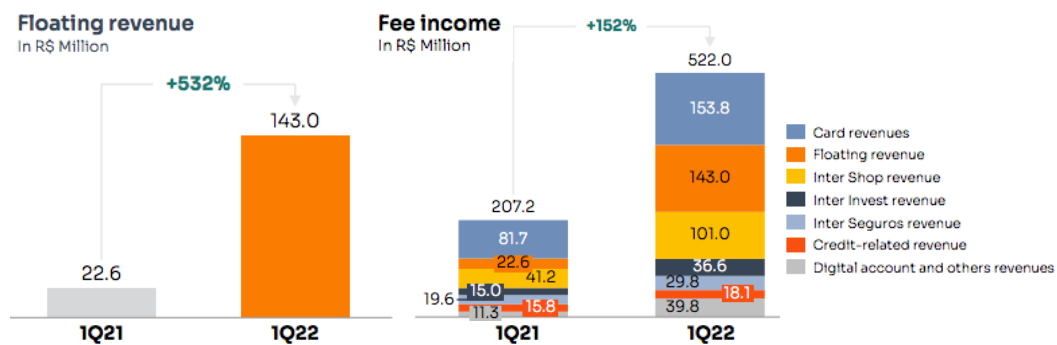


Fig. 15 Floating revenue and Fee Income breakdown (Inter, 2022)

Inter's monetization strategy seeks to combine all different kinds of revenue streams into the customer lifetime value. In their mapped consumer journey, a typical consumer enters Inter's ecosystem by opening a demand deposits account and progressively engages with higher-value offers, passing by investments or marketplace services, and finally arriving at credit products & loans (Inter, "1Q19 Institutional Presentation").

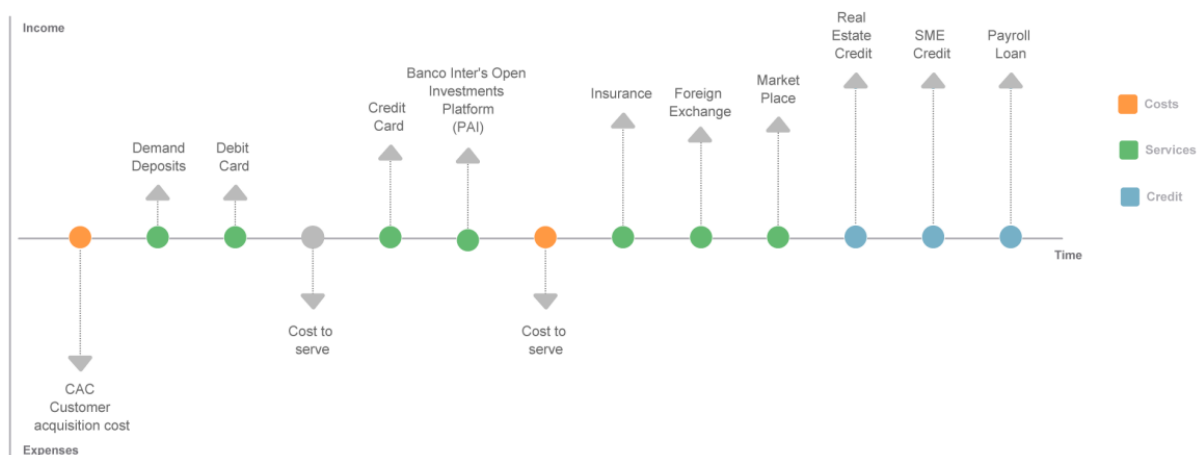


Fig. 16 Inter's customer lifetime monetization strategy (Inter, 2019)

Customer's do not necessarily have to go through all of the abovementioned steps to get a credit or a higher-value product but Inter has achieved higher and higher cross-selling levels, now standing at 3.4 products per client. For what regard the average revenue per client, it sits currently at R\$367 per client.

2.5.6 Key Activities

Inter's key activities are those activities or tasks that must be completed to run their business model. They focus both on fulfilling the value proposition as well as reaching customer

segments and maintaining a relationship with them. The key activities can be divided into two main categories: Operational and Growth activities.

Inter's Operational Activities are those required to deliver the value proposition of simplifying people's lives. In order to maintain the Super-App, IT operations including cybersecurity monitoring as well as app maintenance and update are crucial. Moreover, for each business line, there are key activities to be performed:

- Day-to-day Banking: liquidity and float management, transaction processing, payment security;
- Investments: brokerage operations, financial advisory;
- Credit: funding, analysis & credit risk assessment, portfolio monitoring;
- Insurance: partnership-seeking with insurance providers, client risk analysis, customer support, claim handling & adjustments;
- Shopping: partnership-seeking with online retailers, cashback & transaction processing, payment security;
- Cross-border Services: USD-denominated account management, foreign exchange operations.

When it comes to Growth Activities, Inter's marketing activities are key to reaching new customers and maintaining the relationship with existing ones. These activities include both creating content in the aforementioned channels such as InterBlog and the YouTube Channel, as well as organizing campaigns such as Orange Friday, InterShop's black-Friday campaign, and InterWeek, focused on promoting financial advisory to clients.

Inter also grows by seeking partners and performing M&As. In 2021, for example, Inter closed a 15-year partnership with "Sompo Seguros" to offer real estate insurance within the Brazilian State's Housing Financial System directly from the Super-App (Inter, 2021). Similarly, along the years, Inter has acquired firms like "DLM Invista", which became their asset management division, and "USEND", which became their global account, expanding their product offering and in parallel acquiring new customers.

Finally, one of the most important growth activities is product development. Only in 2021, Inter launched 27 versions of their Super-App. These versions do not change the overall UX design of the app, otherwise users would have to relearn how to use it each time. Instead,

improvements are marginal, or module-based. In this way, launching a new function to visualize stock highlights in the investment module will not change the overall experience of those who do not use it. To increase efficiency and agility, Inter organizes Growth Squads, which are multidisciplinary teams oriented by product whose goal is to understand customer behavior and output personalized experiences and services. Their approach to work consists in identifying a growth opportunity within the consumer journey phases and aligning product, marketing, data, and technology teams to have an end-to-end view of new product developments.



Fig. 17 Inter's Growth Squad Formation (Annual Report, 2021)

According to Eduardo Lopes, Inter's Head of Growth, the company pushes forward a very strong culture of experimentation. He mentioned that Inter's leadership is much more prone to trial and error instead of excessive planning and slow action. When questioned about how Inter chooses the next product to launch, he said that they take into consideration the intuition of employees following a certain product and market, what qualified investors suggest, and rapidly move into the testing phase using the Super-App as a laboratory and gathering rich customer and market data. Using the same example as above, if Inter wants to test a new function to visualize stock highlights in the investment module, it can launch the feature to a reduced customer sample and collect data such as average time spent in the module, number of interactions with the new feature, or even trading performance differences. Mr. Lopes also mentioned, for example, that before launching their MVNO (mobile virtual network operator), "Inter Cel", they thought that its profit model was quite

simple, ultimately based on paying a fee to Vivo, the licensed network operator. However, as soon as they launched the service, they realized that 9 out of 10 clients call the client service center within the first week of contract, which exponentially increases the cost to serve. As a conclusion, he said that testing a new product often proves that previous assumptions made by the team were wrong and introduces crucial information of how consumers react to a specific offering.

2.5.7 Key Resources

When compared to its competitors, Inter has key resources that allows it to successfully deliver its value proposition and sustain a competitive advantage.

Backed by a traditional financial intermediary operation, with heavy focus on credit, Inter has achieved positive net income since 2015, with the exception of 2021, when an increase in the CSLL tax rate impacted their bottom line result (Inter, Annual Report 2021.) In comparison, direct competitor Nubank, which started in 2014 as a pure FinTech player (without the support of a traditional bank), has only managed turn its first-ever positive net income result in 2021 (Nubank, 2021).

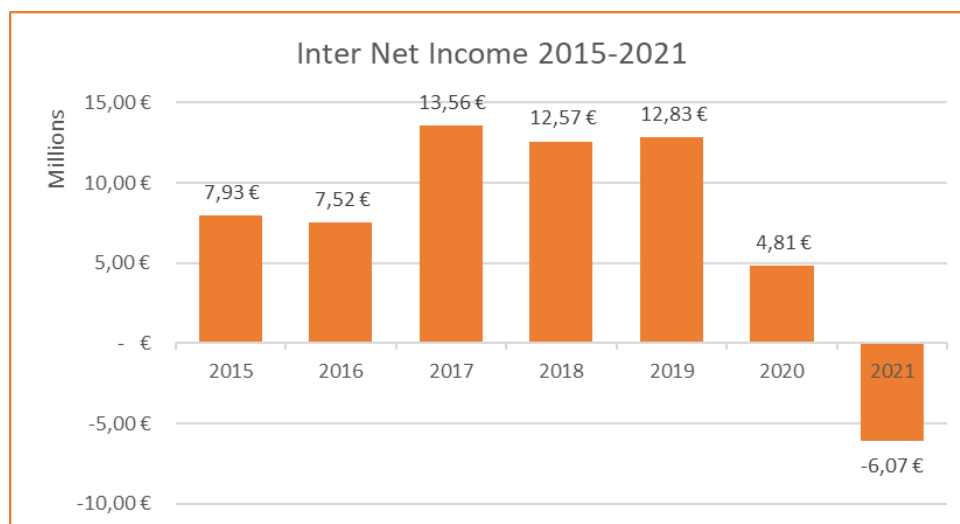


Fig. 18 Inter's Net Income from 2015 to 2021 (Orbis)

Another major resource of Inter is its customer base, now reaching more than 20 million opened accounts, with a low average age (80% of customers are under 40 years old), opening a significant space to expand the lifetime value of clients, and with up to 70% in recurrence rate for products like InterShop.

Inter also has important intellectual resources. Each employee has received, on average, eight hours of training, and more than 58,000 people have been trained in their career, acceleration, and professional qualification programs. When it comes to the leadership, Forbes Brasil has classified João Vitor Menin, CEO of Inter, as one of the ten leaders who best maintained or increased the relevance of their brands and the indicators of their businesses amid the economic crisis and pandemic. Rafaela Vitória, Chief Economist and Head of Research at Inter, also entered Bloomberg's list of 500 most influential people in Latin America (Inter, 2021).

Institutional shareholders are a resource both of funding but most especially advisory. As Mr. Lopes mentioned during the interview, they also have an important role in the new product development process, by providing new ideas and insight on how the market is moving.

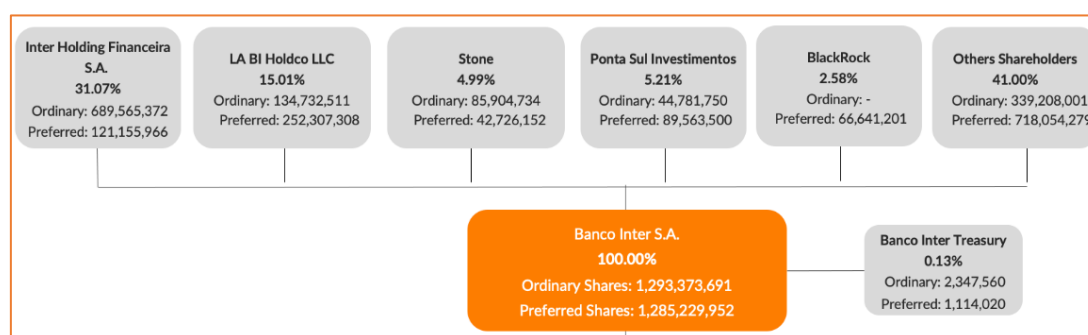


Fig. 19 Inter's main institutional shareholders as of May 2022 (Financial Times)

Finally, Inter's continuous investment in technology, turned its scalable platform into a key resource. In order to handle and interpret large volumes of data coming from the Super-App, they have built a data lake resource. As in other data-driven business models, Inter's platform enables the generation of insights and data intelligence to leverage product revenues, understand customer behavior, forecast trends, which in the end can support quick data-fed decision-making.

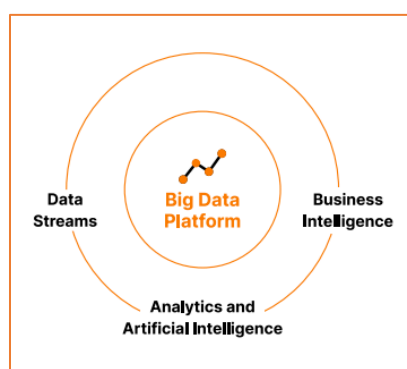


Fig. 20 Inter's big data platform (Inter, 2021)

2.5.8 Key Partners

Inter can also be said to have an ecosystem business model. Without the key partnerships that empowers its services, Inter would not be able to deliver its value proposition.

Among Inter's key partnerships, Amazon Web Services (AWS) deserves a special attention since it hosts the Super-App platform on cloud since 2018. By providing secure and resizable compute capacity, AWS successfully supported Inter's growth from 400 thousand to 20 million customers as well as the launch of numerous new products & services. They also organize trainings and webinars to Inter's IT departments, which have an average attendance of 400 employees (AWS, 2021).

Another major partner in Inter's trajectory is Mastercard. Joining Inter's credit card operations in 2016, Mastercard was key in increasing trust in their services. This case is typical of ecosystem business models, where emerging players seek partnerships with traditional institutions to increase the perceived trust of their product. As mentioned by Mr. Lopes, before the partnership with Mastercard, Inter had a card from the Cabal payment network, a scheme founded in Argentina in the 1980s. He said that since almost no consumers knew this payments scheme, they imposed a very high trust barrier, and Inter's card lost credibility. With the arrival of Mastercard, Mr. Lopes said that they "rose to another level" of trustworthiness in the market.



Fig. 21 Change from Cabal to Mastercard, when Inter was still called Banco Intermedium (2016)

Other two business lines in Inter operate mainly through partnership. InterShop, the marketplace inside the Super-App, has more than 400 partner sellers from 28 different countries including. Partnerships are handled in three different ways: Affiliates, Gift Card, and End-to-end. They differ by the level of integration in the Super-App and the resulting customer

experience. Whereas in the Affiliates model customers are redirected to the partner’s mobile website, in Gift Cards and End-To-End model, the entire customer journey happens inside the Super-App. To run the operations, Inter has three key partners: VTEX, who powers the e-commerce management system behind the marketplace, AWIN, an affiliate marketing platform that connects Inter to numerous brands, and BlackHawk, which connects Inter to gift-cards from Netflix, Spotify, among others.

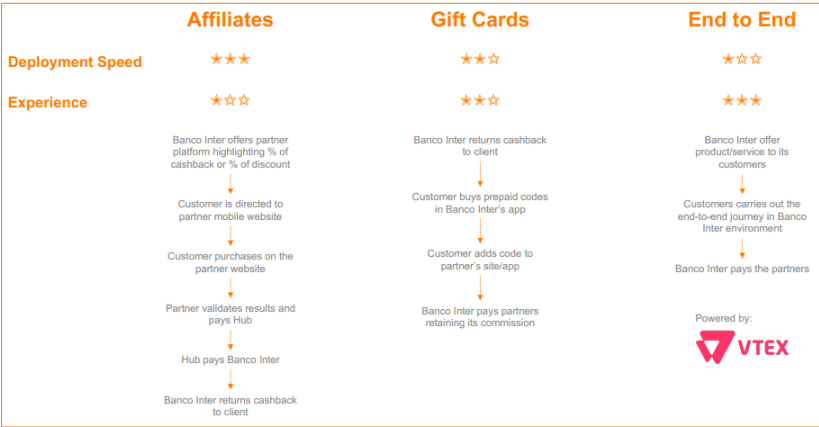


Fig. 22 InterShop Partnership Models (2019)

Finally, Inter Seguros also runs heavily on partnerships. In this model, Inter works as a broker that offers various products from insurance providers, leveraging on their platform to increase sales in a 100% digital form. Among their main partners are Sampo, Wiz, Qualicorp, and Liberty. The latter, given its capillarity across the world, is considered Inter’s strategic partner in its global expansion.

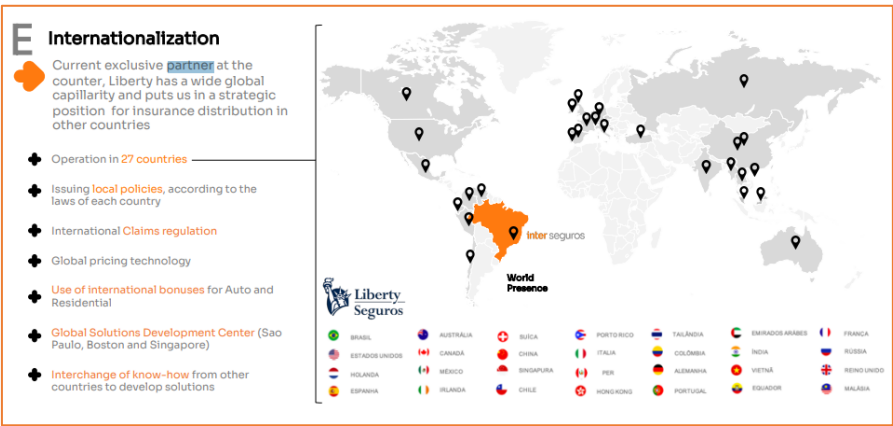


Fig. 23 Inter’s partnership with Liberty Seguros will also allow for its global expansion (2022)

2.5.9 Cost Structure

Inter's cost structure is formed by all the costs and expenses that it incurs while operating its business model. Costs can be divided into two main categories: acquisition and servicing costs.

Acquisition costs comprise all the costs incurred to add a client to the base, considering operating expenses for opening an account - such as onboarding personnel, embossing and sending cards and digital marketing expenses with a focus on client acquisition. When divided by the total number of clients, an important Unit Economics metric can be calculated: CAC (client acquisition cost.) As shown by the graph below, Inter's CAC is almost evenly divided between operational and marketing costs.

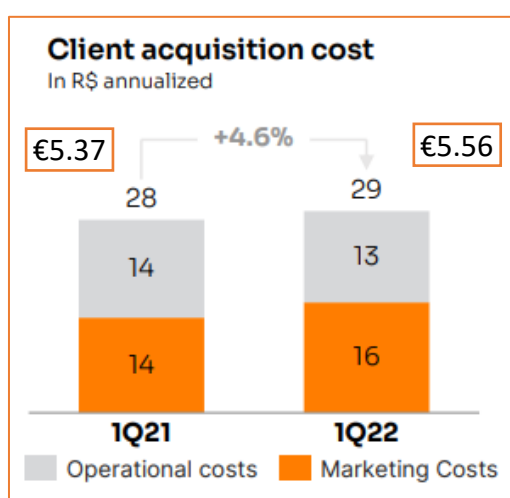


Fig. 24 Inter's client acquisition cost in 1Q21 and 1Q22. Values in EUR as of 10/6/2022. (2022)

Servicing costs, instead, comprise the costs of delivering products & services. It includes expenses from financial intermediation, which accounts for funding expenses and loans operations, administrative expenses such as data processing, rent, communication, specialized technical services, and court costs, personnel expenses such as salaries, BoD fees, profit sharing, and benefits, as well as other operating expenses such as charge card withdrawal fees, refund amounts, and cashback expenses.

When it comes to the cost of funding, Inter has been progressively decreasing it as the retail depositors base increase. This decrease is perfectly cohesive with Mr. Lopes affirmation that one of the reasons why Inter chose to launch a digital current bank in 2014 was to have a cheaper source of funding for its credit operations. Whereas in 2016, the cost was in line with CDI (Brazil's Interbank rate), in 2019 it was already at 72.1% of the rate, and in 1Q22 it lies around 53% of CDI.

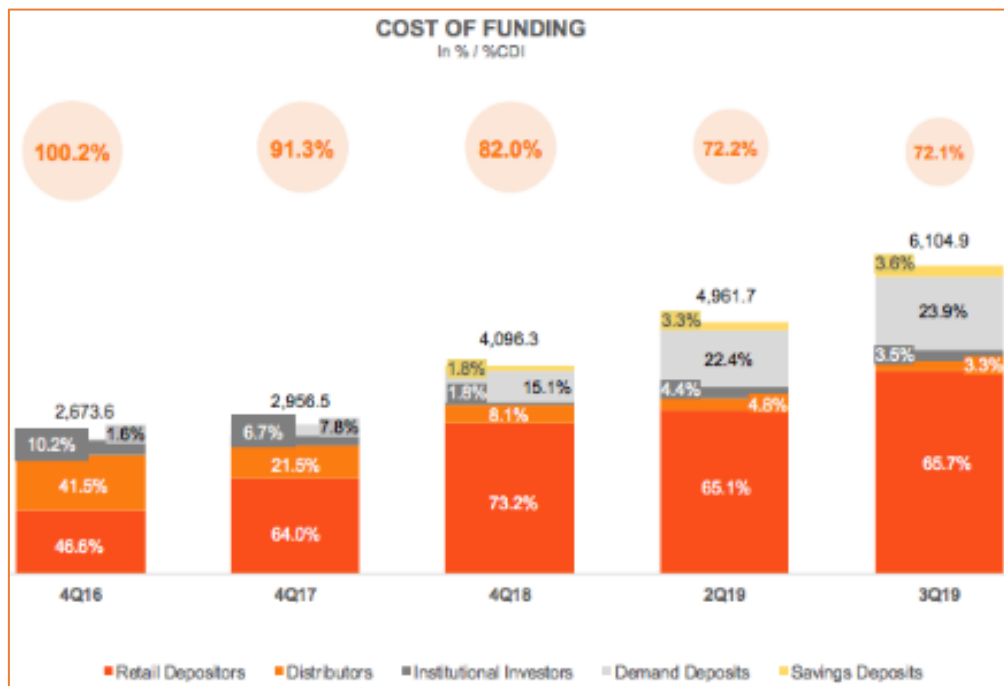


Fig. 25 Inter's cost of funding decreased as percentage of retail deposits increased (2019)

Finally, cashback is present in most operations in Inter as an incentive to customers, from credit card to investments and marketplace. For example, Inter allows customers to invest in various investment funds and receive cashback on the administrator fees. In order to do so, Inter returns to clients 50% of the fees it receives from other asset management companies when selling and distributing their funds in the Super-App. Although it is a cost, Inter markets it as “how much it has already given back to customers”.



Fig. 26 Cashback counter in Inter's website (2022)

2.6 Inter's Strategy

After outlining Inter's history since its creation, its current Super-App offer, and its Business Model Canvas, the goal of this section is to answer this study's first research question:

1. What characterizes the business model innovation strategy that guided the historical development of Banco Inter's super-app?

The Casadesus-Masanell and Ricart's model says that strategy is the principle that guides the choice of a business model through which the firm will compete in the marketplace (2010). In other words, given a set of different business models that a firm can choose, strategy will guide the set of committed choices that will allow the firm to pursue a specific business model. Taking into consideration the current market environment and competition, strategy also involves a set of provisions against a range of different contingencies (market changes, macroeconomic phenomena, competitors' moves, or environmental shocks) (2011).

Inter went through three major business model changes during its history. At its creation, it operated solely as a credit-focused financial intermediary. Then it launched the digital bank account and began operating as a retail digital banking player. Finally, it consolidated itself as a technology company when it launched the Super-App. Each new business model and each strategic choice came with the deprioritization of other possibilities. For example, by switching the business model focus to B2C retail banking operations, Inter deprioritized the possibility of growing as a pure real estate credit financial intermediary, which has its benefits and drawbacks. When it comes to strategic choices, for example, when Inter decided to have a conservative credit-card policy with lower interest rates, it forwent the possibility of growing by providing easy access to credit-card like Nubank, which has more than 60 million clients as of June 2022 (Nubank, 2022).

In the historical development of Inter, three major factors characterized its strategy: the diversification of products & services, the focus on creating an enhanced customer experience, and the scalability & geographical expansion. All these factors have in common the use of technology as an enabler.

Since very early on in its development, Inter saw in diversification of products and services a way of protecting itself and sustaining its business against difficult macro-scenarios and challenging economic cycles. As early as 2008, Inter made a committed choice of getting a full banking license from the Central Bank, which highly increased its regulatory burden but at the same time amplified its range of possible offerings. In 2012, Inter was operating mainly in three lines (real estate, consumer, and SMB credit) but it was just launching "Interfronting Seguros", its insurance broker, and the institutional reports already spoke about "cross

selling” as a significant opportunity. In 2015, after a 100% increase in SELIC (Brazil’s federal funds rate), Inter’s choice to launch a digital current account diversified both its funding sources (demand deposits are one of the cheapest sources of funding) and its revenue streams by creating a new line of business. At this time, fee income was still negligible, and gross interest income accounted for more than 90% of revenues. With the launch of the Super-App in 2019, diversification only intensified. Inter committed to many partnerships, like the one with “Sompo Seguros” to offer real estate insurance products for an initial term of 15 years, and performed important acquisitions such as the one of “DLM Invista”, an asset management firm with more than R\$4.5 billion (€860 million as of June 2022) under management. Today, Inter operates in six main business lines (day to day banking, investments, credit, insurance, shopping, and cross-border services) and fee income represents almost half of total revenues (42% in 1Q22). In the 4Q21 institutional report, Inter’s management wrote: “Our Super App is the foundation to a resilient business model that combines a diverse revenue stream, including revenues from both credit and services. As a result, Inter is much better positioned to face different economic scenarios.”

Inter’s business today is strongly based in the high engagement and recurrence of clients. Clients are expected to open their digital current account and progressively purchase higher-value products such as investments, insurance, and credit. To maintain this model sustainable, Inter has always made the committed choice of being conservative as a financial institution. From the earliest reports, Inter has disclosed a very high Basel index level (26.3% in 2012 and 44.3% in 2021), pointing to very low leverage and high solidity of its operations. This position was further reflected in 2015, when Inter made the choice of adopting a very conservative credit card policy, charging one of the lowest interest rates in the market, but only giving credit to those customers whom they deemed capable of affording it. As Mr. Lopes said in the interview, “[Inter] chose to provide customers what they could have, not what they wanted to have”, because the company had the long-term view of maintaining that client for years and did not want to risk the sustainability of their relationship. This focus on the client’s financial health was further intensified with the launch of financial education initiatives such as videos on YouTube, podcasts on Spotify, and livestreams with experts. Another key choice that Inter made with a strong focus on the client was to launch the digital current account in 2015 with zero fees. At the time, Brazil was known for very high banking fees expenditures and the price of services was one of the main reasons for low banking penetration. As of 2019,

the “Tarifômetro”, Inter’s banking fee counter, stated that by using their fee-free account clients had already saved R\$1 billion (€190 million as of June 2022) in fees. Finally, today, Inter’s entire business is about serving the client and simplifying their lives. They provide a full ecosystem that delivers solutions to customers “from the time they wake up to when they go to sleep.” Heavy investments in data intelligence allow for the automatic data collection, processing, and the offering of personalized services and targeted offerings. M&As, on the other hand, served to create an even more complete offer, bringing players like “Meu Acerto”, which helps clients to pay off their previous debt, and “Duo Gourmet”, a restaurant loyalty & benefits program, into Inter’s ecosystem.

Since 2015, Inter has grown its current accountholders base from 11.5 thousand to 20 million, at a 290% CAGR, which means almost tripling up in size each year. This growth happened from having an attractive product to clients, maintaining a low CAC through referrals, social media, and targeted marketing, and through geographical expansion. At the time of “Intermedium” financial intermediary, physical branches specialized in real estate credit were opening all around Brazil, but business was still heavily concentrated (50%+) in Minas Gerais, the state where Inter was founded. With the launch of the digital account, services reached the entire country, with a presence in 98% of Brazilian cities by March 2019. Today, committed choices such as partnerships and acquisitions are strategic for Inter’s internationalization. “Liberty Seguros”, an insurance provider with which Inter renewed a 15-year partnership in 2020, operates in 27 countries; the acquisition of UNSEND, on the other hand, was described by Inter’s CEO Mr. Menin as “the company’s biggest move since it listed its shares in 2018” and will allow Inter to offer a “Global Account” where clients can transact in USD (Reuters, 2021).

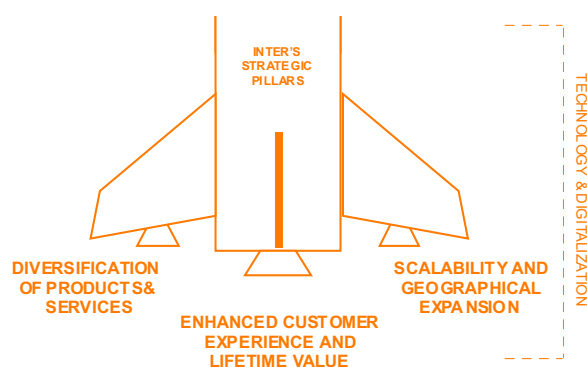


Fig. 27 Identified Strategic Pillars of Inter

2.7 What will guide Inter's future business modelling?

This study's second research question was:

2. What will guide the choice of the next services or offerings that will be integrated into Banco Inter's super-app in the following years?

First of all, Inter will likely continue to leverage its three strategic pillars: diversification of products & services, enhanced customer experience and lifetime value, and scalability and geographical expansion. Presence since at least 10 years in the company's strategy (oldest public reports are from 2012), they will guide Inter into a future with a growing client base and an even more complete product.

Geographically, with the UNSEND acquisition, Inter's focus is to expand to the United States, not only offering services for Brazilians expats, but also directly compete with American FinTechs such as Chime, a fee-free digital bank account and credit card, and SoFi, a loan and investments app. The "Global Account" that Inter has launched with UNSEND's infrastructure will likely expand into other parts of the world. In Spain and Portugal, for example, Inter already operates "Go Inter", an online marketplace with cashback offers. To expand into other services, Inter's CEO Mr. Menin said in an interview that the company is also eyeing acquisitions in Europe and Latin America, although it will likely operate without full bank licenses outside Brazil (Pymnts, 2021).

When it comes to customer experience and product development, Inter's mission of simplifying people's lives, although very generalist, will likely be the guide. Taking as input the recent developments in the market and technology, suggestions by qualified institutional investors, and the gaps identified by product teams, Inter will continue to add products and services that are complimentary to those that it is currently offering. For example, in the insurance module Inter already offers Health insurance and dental plans. Implementing telemedicine can give them the opportunity of expanding the platform concept into a Well-being platform. Considering the recent developments of HealthTech and the popularization of wearables that can measure vital signs such as heart rate, temperature, and respiratory rate, there is a growing opportunity of Health digital platforms (Phaneuf, 2022).

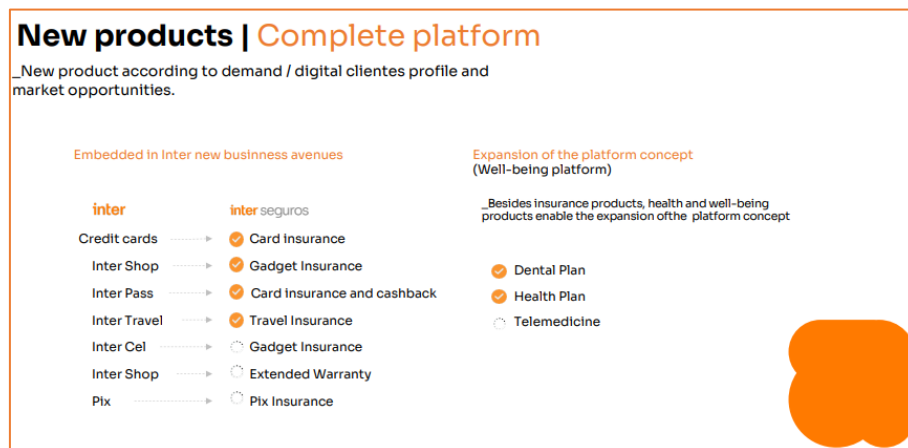


Fig. 28 New insurance products opportunities (Inter, 2021)

Inter has also identified many opportunities of cross-selling and embedding insurance products into other business lines' offerings. For example, they have identified the opportunity of offering cellphone insurance to Inter Cel's clients, Inter's mobile carrier. Similarly, Inter clients will soon be able to add extended warranty when purchasing through the company's marketplace.

Finally, given Inter's strong "test and learn" culture, the company will likely launch various products and services in the next years, some successful and others that will be discontinued. Its current six business avenues (day to day banking, investments, credit, insurance, marketplace, and cross-border services) seem to be very well defined, but new ones might be created. Compared to other super-apps across the world, social media & messaging is the only macro-area that Inter has not yet tackled. Although improbable in the current short-term scenario, Inter might start seeing an opportunity in the next years, as apps like Venmo, Paypal, or Lydia are trying to make payments more "social" by allowing customers to add descriptions to transactions, emojis, images, and ultimately share with friends (Techcrunch, 2022).

Part 3 - Conclusion

Since the rise of WeChat as the world's largest stand-alone app in 2018, super-apps have spread around the world. Despite a slower development compared to Asia, in the West, many FinTech players are joining the super-app race. In Brazil, Inter emerges as the most successful player and a noticeable case of business model innovation. With more than 20 million customers today, Inter started as a real estate financing intermediary, then became a 100% digital bank, and finally has been pushing forward a super-app strategy since 2019.

The goal of this study was to understand how literature defines business model innovation & strategy, examine the rise of FinTech business models and super-apps, and finally understand how these concepts apply in the investigation of the Inter's business case, focusing on two main research questions:

1. What characterizes the business model innovation strategy that guided the historical development of Banco Inter's super-app?
2. What will guide the choice of the next services or offerings that will be integrated into Banco Inter's super-app in the following years?

Leveraging on Inter's website, public reports, and an exclusive interview with Eduardo Lopes, Inter's Head of Growth and responsible for new product launches, M&As, and partnerships, this study thoroughly analyzed the historical development of the company and evaluated its current business model by applying Osterwalder & Pigneur's Business Model Canvas. Valuable insights such as the Menin's family influence in important business choices, the importance of the "test and learn" culture inside Inter for product development, among others were produced throughout the work. In response to the research questions, we further recognized three strategic pillars that have consolidated Inter's strategy throughout time (diversification of products & services, enhanced customer experience & lifetime value, and scalability & geographical expansion) and identified in the geographical expansion into the US and Europe as well as in cross-selling and complimentary products the main avenue for Inter's future product choices.

It is left for us to understand how other super-apps have evolved throughout time, what is currently guiding their expansion, and how they can provide insight in the analysis of Inter's business model choices and future endeavors.

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