

# ***Looking Ahead: Digital Banking***

**Carlos Torres Vila** - Head of Digital Banking

# Contents

- 1. The Digital Revolution**
- 2. Capturing the Opportunity**
- 3. Conclusions**

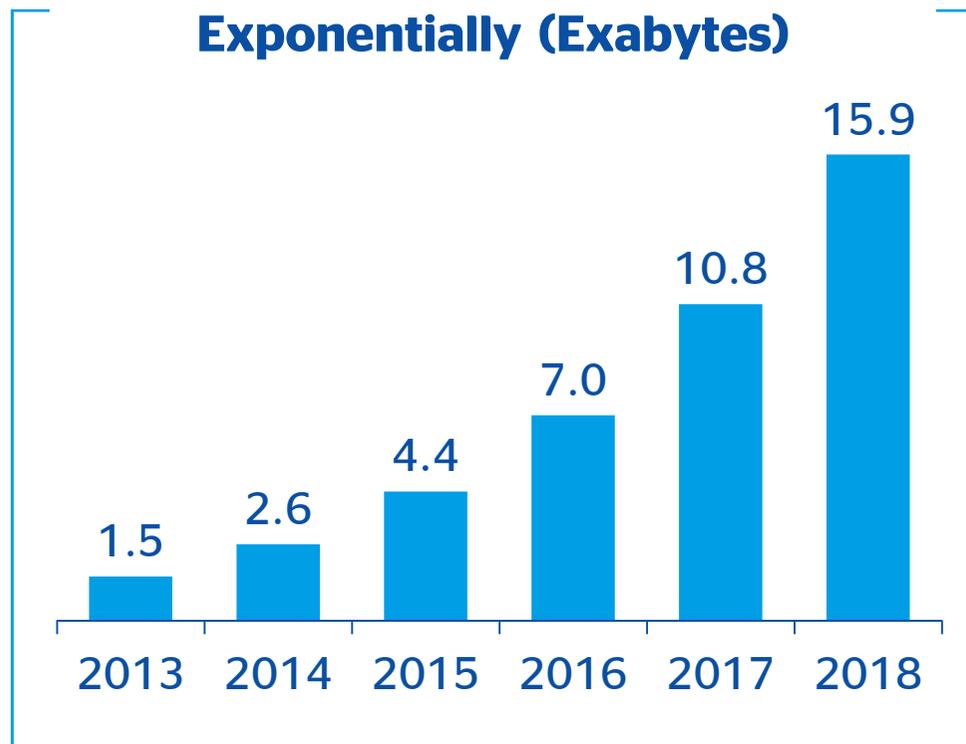
# Universal Access to Mobile Internet



**Mobile Internet is Transforming Society and Business**

## Exponential Growth of Data

**Mobile Data Traffic is Growing Exponentially (Exabytes)**



2.6 EB

2.6 exabytes of mobile data per month (2014)

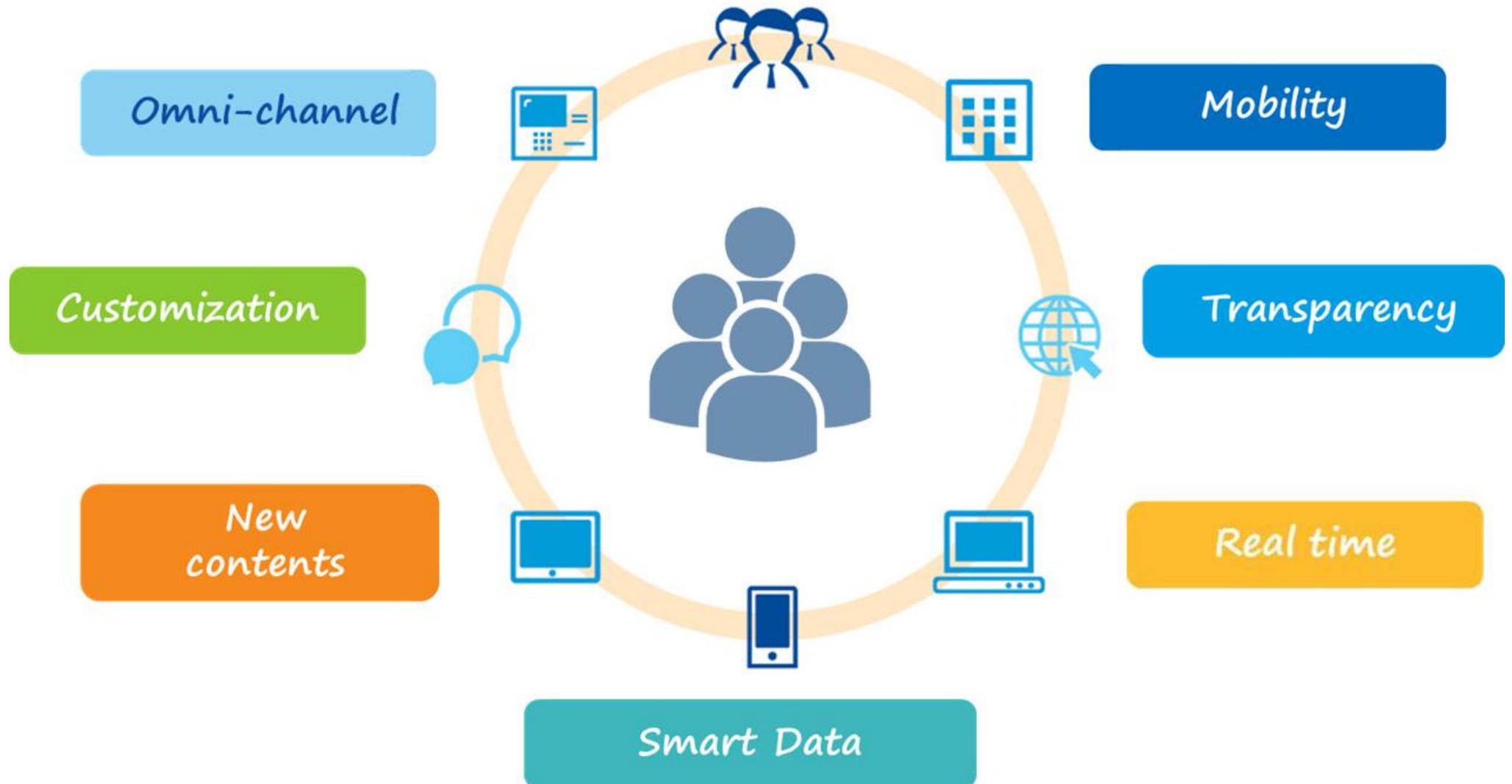
2 x

Mobile network connection speed more than doubled in 2013 (vs 2012)

7 Bn

7 Bn mobile devices<sup>1</sup> connected to mobile networks in 2013

## Banking Industry Impacted by New Customer Expectations and Behaviors



## Acceleration of the Innovation Cycle

### **Faster and cheaper Innovation:**

- ✓ Cloud Computing
- ✓ Code Sharing
- ✓ Collaborative tools
- ✓ APIs<sup>(1)</sup>
- ✓ Digital Channels

**Venture Capital investment** fueling  
the innovation cycle

**Experiment  
upon  
experiment at  
an accelerated  
pace**

## New Competitive Landscape

1

### FinTech Start-Ups (Disaggregation of our Industry)



- **Focused specialists in pieces of the value chain (profoundly redefined business models)**
- **Potentially leaving banks out, or in back-end, or in most regulated areas**

2

### Large Digital Players (Industrial Convergence)



- **Financial Services** as a complement to their current offering
- **Ability to create bundles** (difficult to replicate for Banks)

## Fintech Startups: Disaggregating the Value Chain

<b>Personal (or SMB) Finances</b>	<b>Automated and effortless personal financial management</b> based on information	  
<b>Investment and Wealth Management</b>	<b>Customized portfolio analysis and investment advice</b>	  
<b>Lending</b>	<b>Pre-approved credit offers</b> based on customer information (risk profile and life event)	  
<b>Equity and Debt Financing</b>	<b>Capital markets access extension</b> through Crowdfunding	  
<b>Transactions: Payments, Wholesale Markets</b>	<b>“Real-time” payment service and Buying-Selling financial assets</b>	  
<b>Bitcoin and Alternative Virtual Currencies</b>	<b>Free and safe movement of money (or value) globally</b>	  
<b>Advice for Products and Service</b>	<b>Independent advice vs Product Manufacturer</b>	  
<b>Leveraging Bank Transaction Data and Services</b>	<b>Aggregated financial picture and APIs development</b>	  

## New Competitors' Value Proposition

Advocate for the **customer**, leveraging technology to **provide a better experience**

Leverage data and technology to **make better decisions**

Leverage technology and new processes to **lower customer acquisition and operational costs**



Focused disruptors are capturing value, disaggregating the industry and transforming each vertical

# Opportunities for Incumbent Banks in This New Environment

**Embracing innovation to deliver better service at lower cost**

**Significant advantages vs new competitors:**

- ✓ **Banking know-how** and **product catalogue**
- ✓ **Data & information richness:** Banks manage a vast amount of valuable customer information
- ✓ **Regulatory compliance**
- ✓ **Trust & Reliability:** Banks have developed trustworthy relationships with their customers

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# Responding to the Challenge and Capturing the Digital Opportunity

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Transforming our Current Business  
to Digital Banking

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Launching New Digital Ventures

## Transforming Our Business to Digital Banking

### **Delivering the best banking experience to our customers**

- Customized and higher value added offering, leveraging data
- Communicated with simple, clear language
- Delivered anytime, anywhere, any device

### **Lowering the cost to acquire and serve our customers**



**More Customers**

**Increased Engagement**

**Higher Profitability**

**Going digital is the critical lever in this transformation  
(not the goal itself)**

## Key Metrics in Our Transformation

**More Customers**

**Increased Engagement**

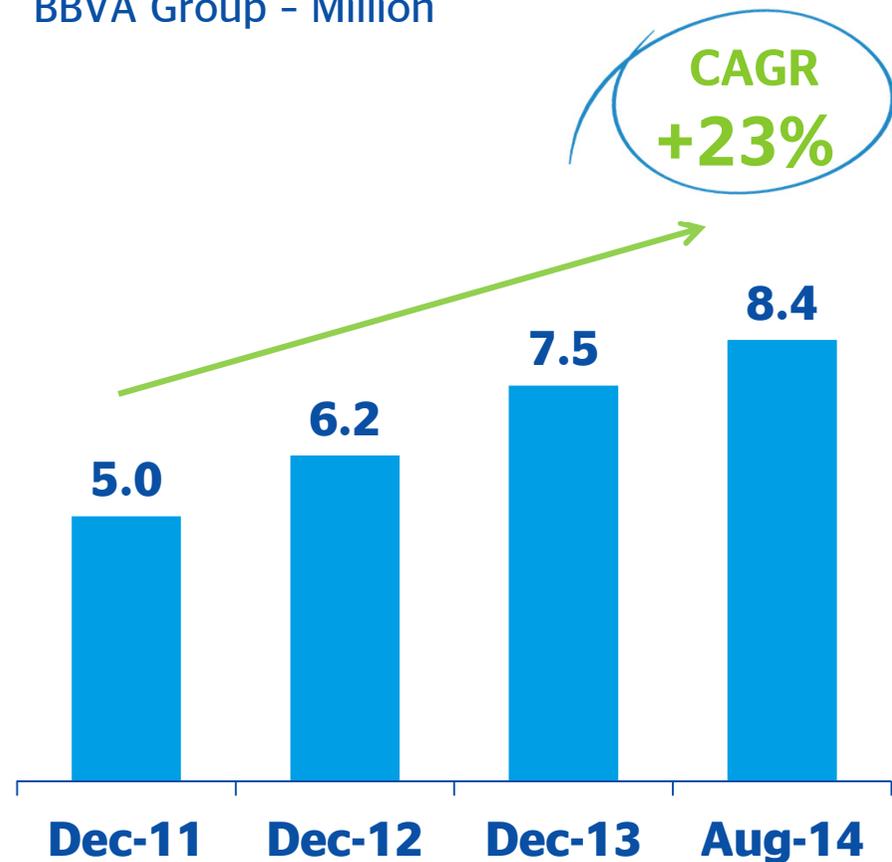
**Higher Profitability**

- NPS (total bank, each channel)
- Digital Customer Acquisition
- # of Interactions per Customer
- Digital Sales
- Total Sales per FTE
- Cost to Income
- % Products Digitally Available

## Digital Channels Already Very Relevant

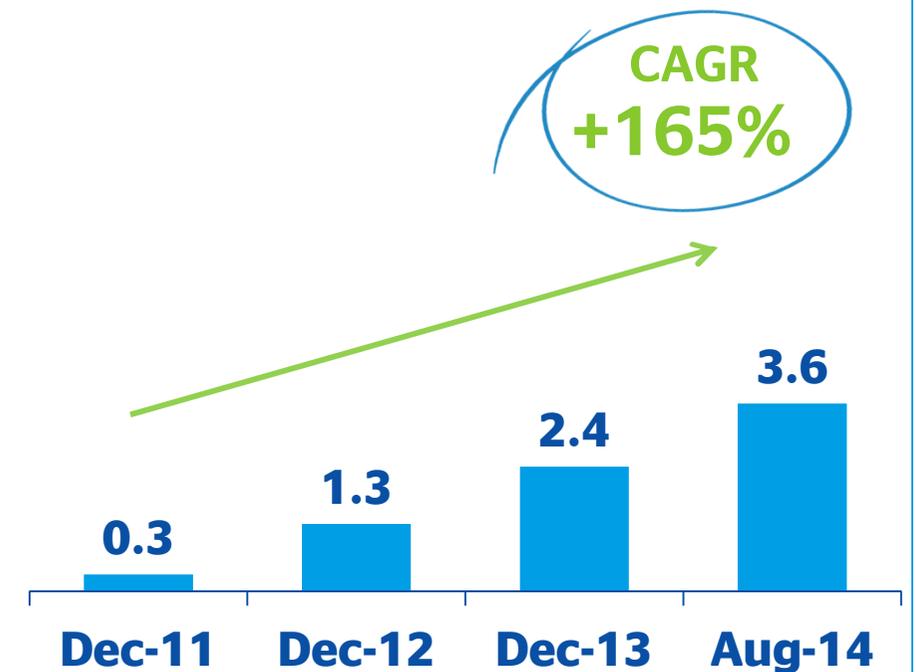
### Digital Active Customers

BBVA Group - Million



### Mobile Active Customers

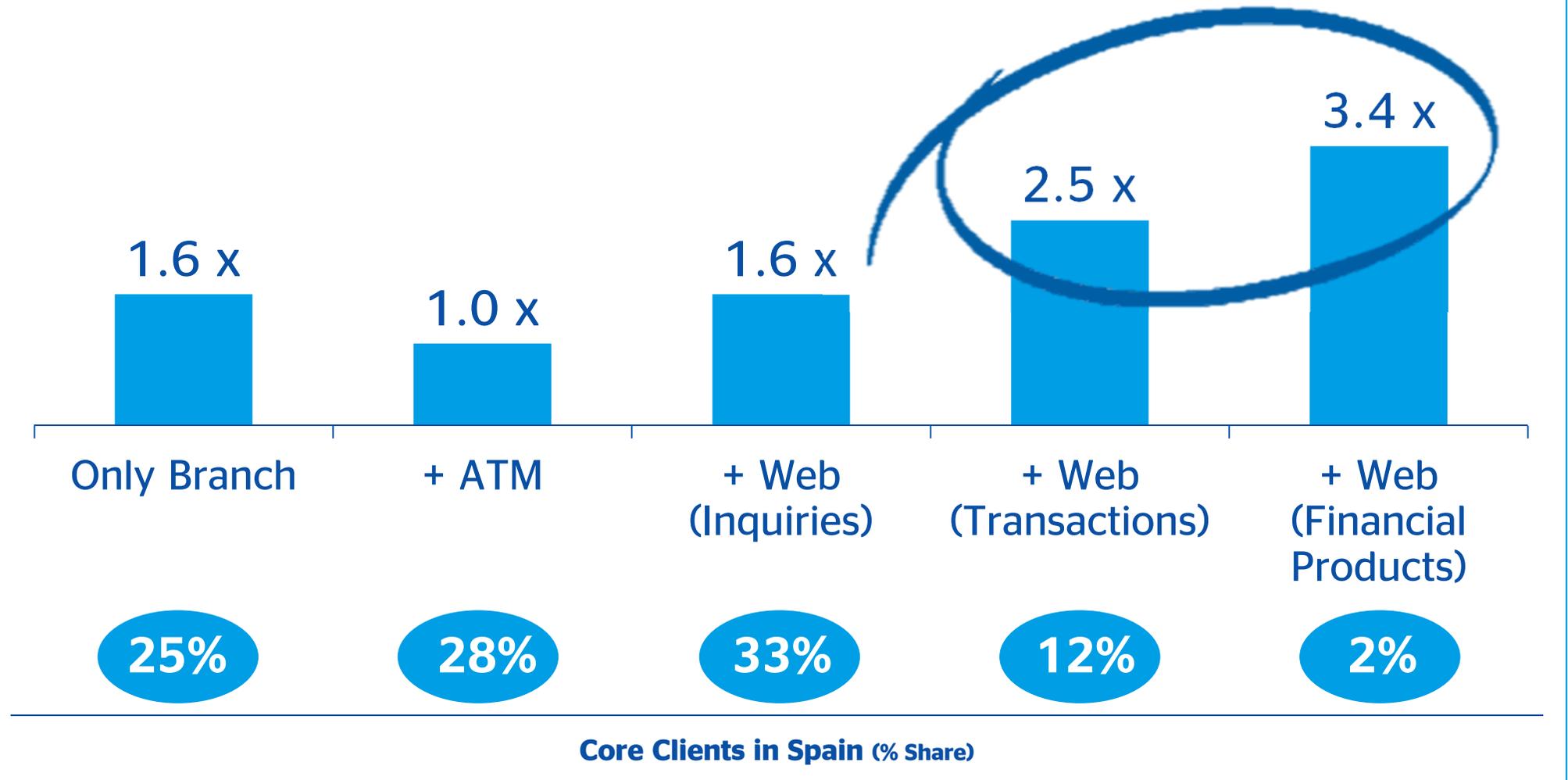
BBVA Group - Million



## Digital Behavior Correlates with Value

### Profitability (Av. Oper. Income) by type of relationship

BBVA Spain

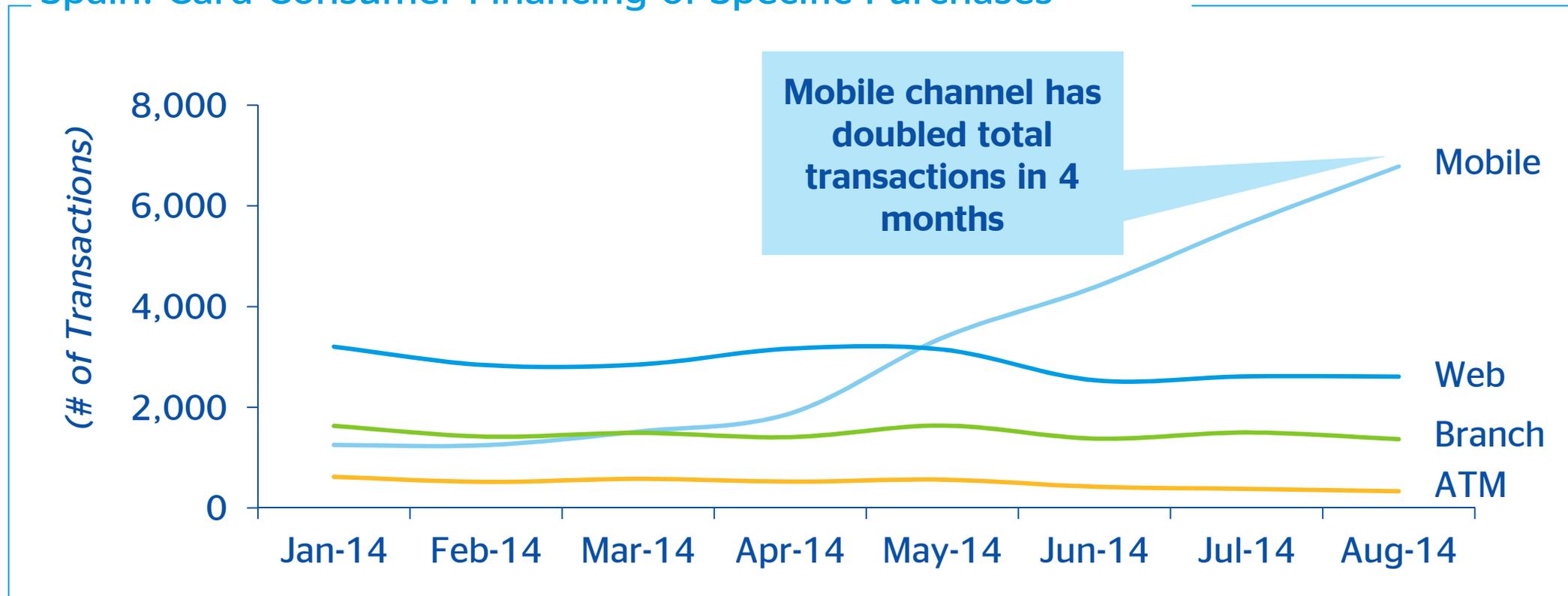


## Customer Experience: AnyTime, AnyWhere, AnyDevice

- **Eliminate the need to go to the branch** for any transaction **through increased digital/remote channel** functionality
- Design **customer interactions** with **Mobile at the core**
- Drive **digital sales**
- Expand **Remote Bankers model**
- **Accelerate the reconfiguration of the branch network**, various branch types, hub & spoke
- Digitally **Transform Key Processes**

# Digital Effective in Generating Additional Sales

## Spain: Card Consumer Financing of Specific Purchases



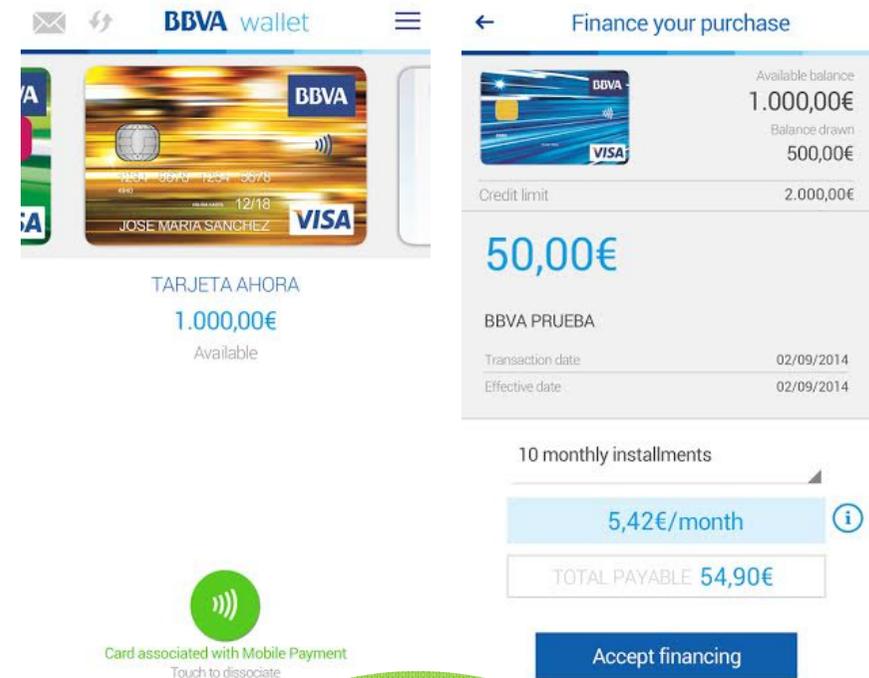
## Mexico: Credit Line Extensions (Sept. 2014)

In just one month, **one-click credit line extension** functionality has **tripled** the **number of transactions** (~17,000) and now represents nearly 20% of the total

## Deployment of New Digital Products Throughout the Group

### BBVA Wallet

- **Purchasing** and **card management** with **any Smartphone**
- Option to **finance purchases instantly**
- **Geo-located promotions & coupons**
- Super **easy and fast on-boarding** process
- **Launched in Spain in 1Q14** and to be rolled out in the USA and Mexico
- **281k downloads** and **70% Active** registered users



# 20%

Loan Origination  
from Credit  
Simulation

## Personalized Remote Customer Care

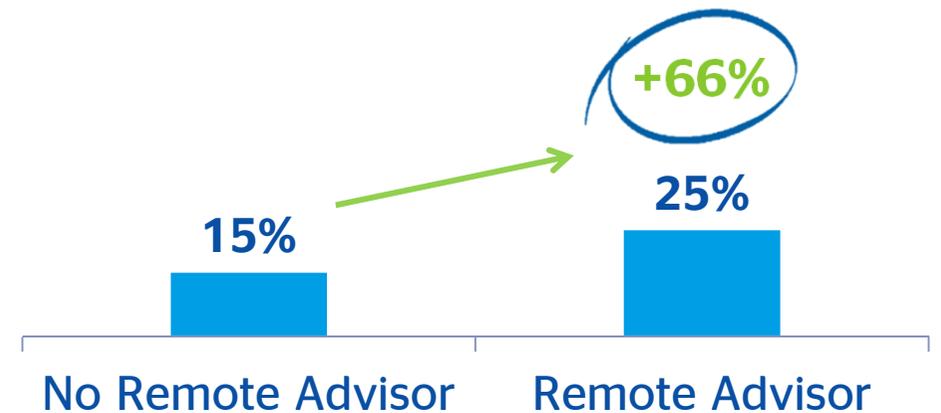
### Personalized Remote Customer Care



- ✓ **Experienced relationship managers** freed from servicing and other branch disruptions
- ✓ **Increased commercial productivity** and **customer satisfaction**

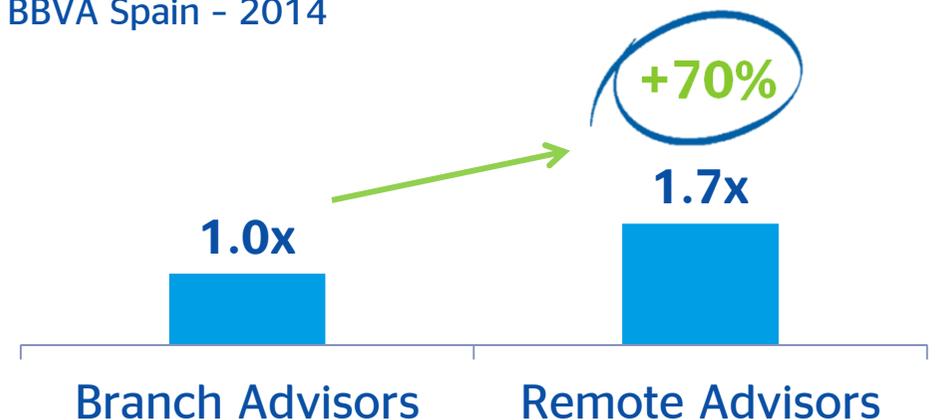
### Cross-Sale<sup>(1)</sup> of Remote Banking Advisors

BBVA USA - 2014 (early extension)



### Sales Proactivity of Remote Advisors vs. Advisors at Branches

BBVA Spain - 2014



(1) Cross-selling campaigns directed at digital customers

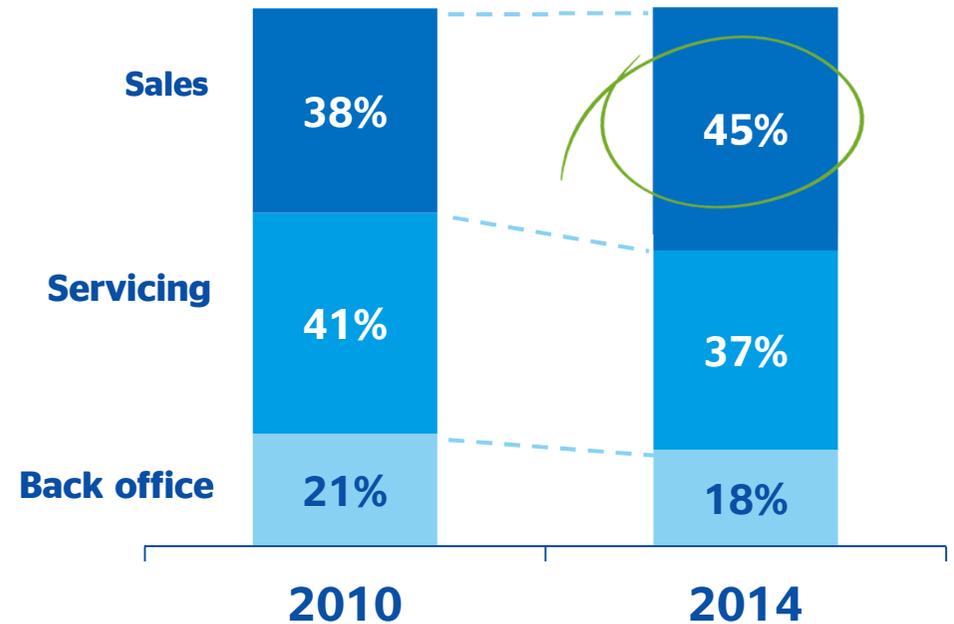
## New Branch Network: More Convenient And Sales Oriented Branches

### New Branch Network layout



- ✓ **Small “self-service” convenience branches**
- ✓ **Large branches with specialists, by appointment, as a value added choice**

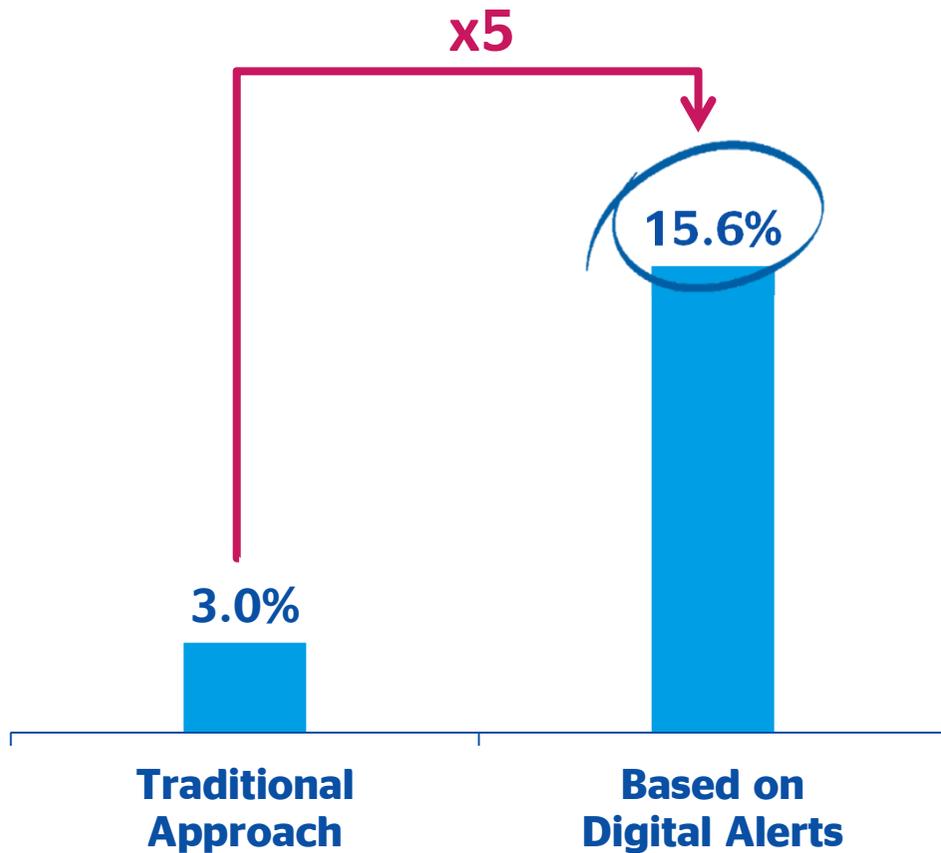
### Branch Activity Breakdown BBVA Spain



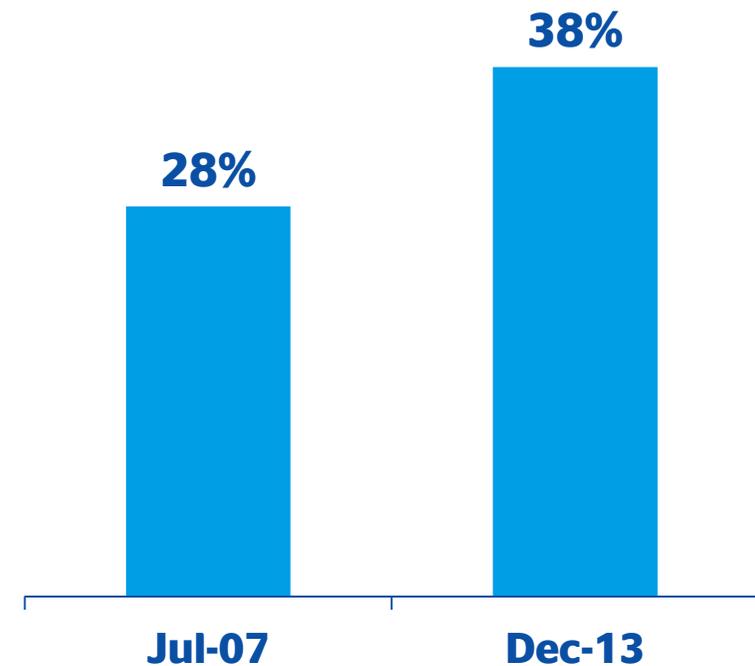
Continuing effort to optimize network and associated cost

## BBVA's New Relationship Model is Already Showing Tangible Results

**% Cross Selling Campaigns Success**  
BBVA Spain



**Sales FTEs as a % of Workforce<sup>(1)</sup>**  
BBVA Group



(1) Full time employees at Group level

## Knowledge Banking: Leveraging Data

### ***Data-driven operational efficiencies and competitiveness***

#### **Opportunities:**

- Infrastructure optimization
- Channel use optimization
- Employee collaboration networks
- Talent capture

### **Operational Intelligence**

### ***Descriptive and predictive risk and fraud solutions from behavioural and event-based models.***

#### **Opportunities:**

- Complementary reactive and proactive risk scoring from internal and external data
- Machine learning for fraud

### **Risk and Fraud**

### ***New business opportunities from financial data***

#### **Opportunities:**

- New data products for our clients
- New data products for new clients
- Data as a service for third-party application development (through open platform)

### **New products, new business**

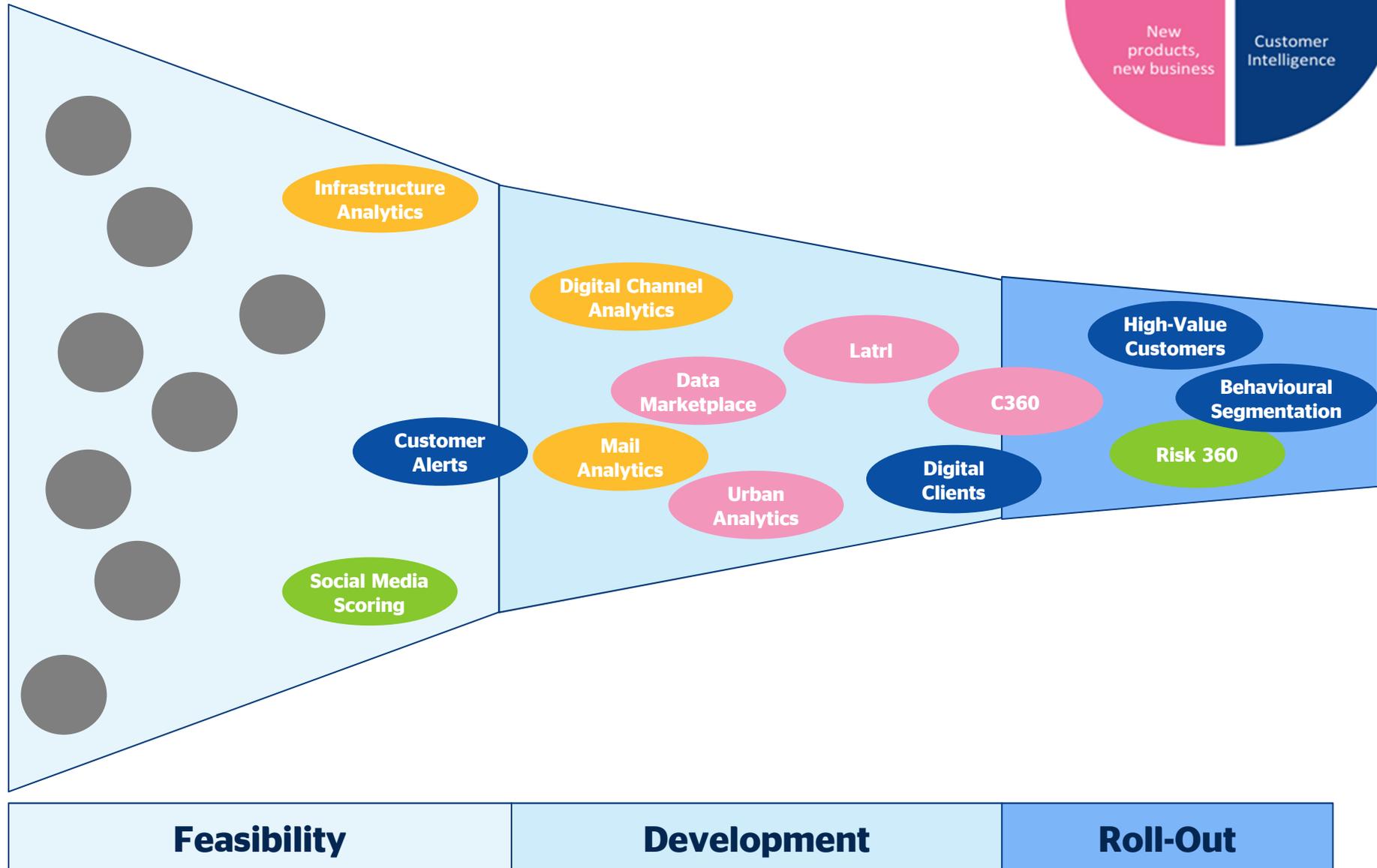
### **Customer Intelligence**

### ***Hypersegmented and dynamic customer vision based on financial and social behaviour***

#### **Opportunities:**

- Descriptive and Predictive models of client & segment behavior
- Optimization of channel interface

## Big Data Project Roadmap



## Clear Examples That Show the Value of Data Analytics

### Value Clients

#### Discovery of mass affluent clients

within our mass clients, based on:

- **Behavior within BBVA**
- **External information**

### Behavioral Segmentation

**Automated customer segmentation**, to acknowledge current and potential customer value and channel preference:

- **Behavior within BBVA**
- **Channel Use**

### Risk 360

**Complementary retailer scoring technology**, based on data from:

- **800K POS + 5.9Mn Cards**
- **Payment Data Attributes**

### Results

X3

**Success Rate of Sales Campaigns**

Vs traditional campaigns  
(415K Value Clients Identified)

6.5M

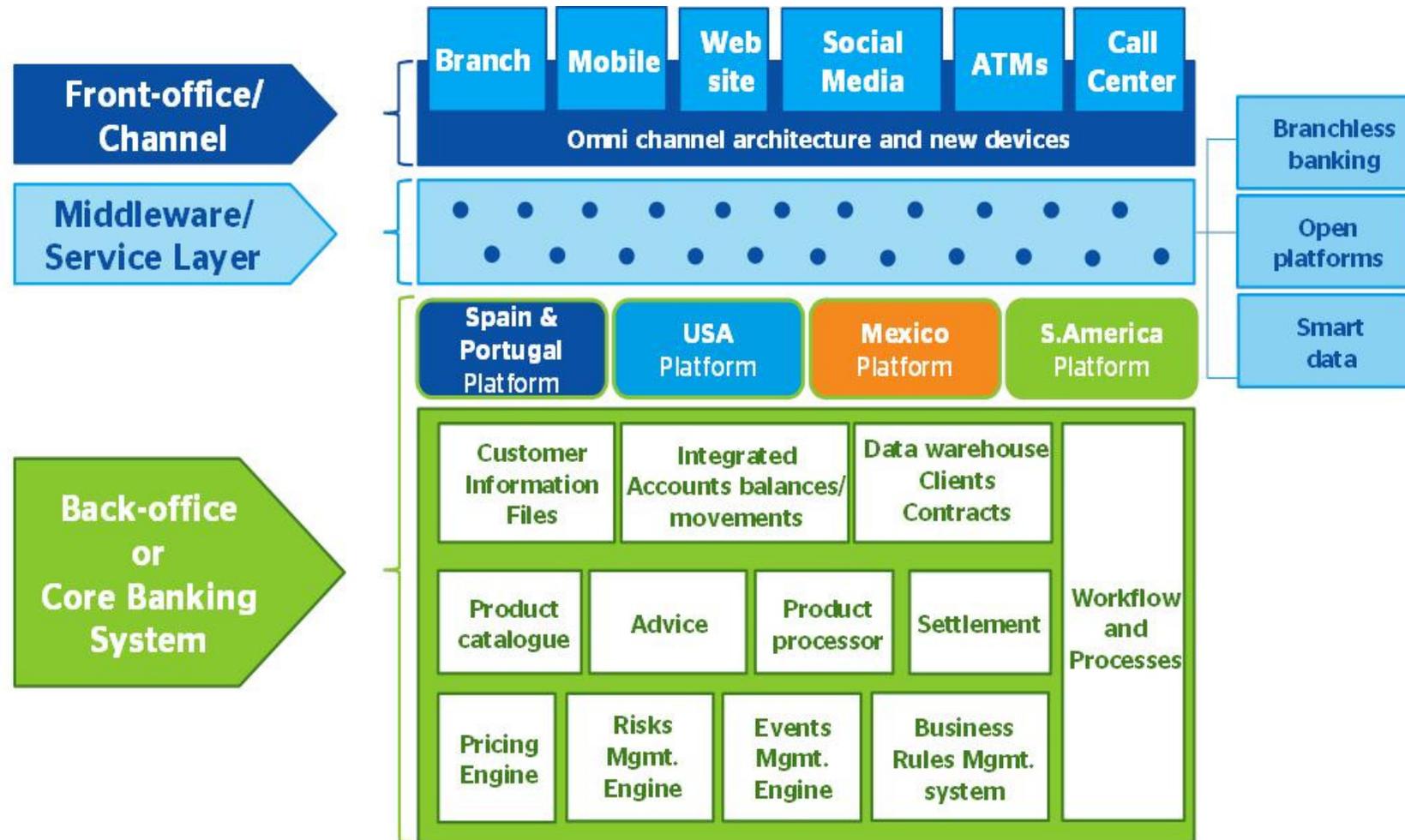
**Clients Segmented in 5 hours**

Vs 2 months prior processes

4%

**Of rescued loans (originally denied)**

## 3-Layered Architecture



Potential to exploit platform advantage connecting digital players through an Open Platform strategy

## Our Technology Platform is a Significant Competitive Advantage

Scalability

Security

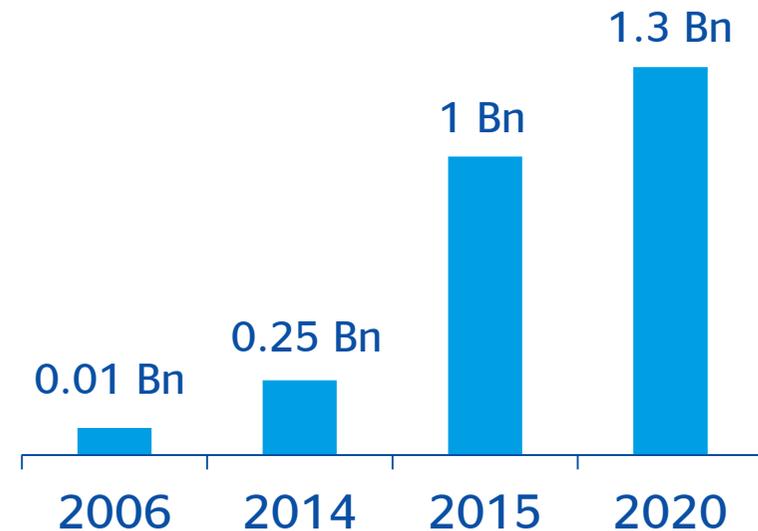
Real time

Efficiency

**Fraud Reduction BBVA Group**  
(%)



**Processing Capacity**  
(Daily transactions)



Additionally, platform allows for better decision making and risk monitoring (ie. Administrative headcount reduced by 20%)

# Responding to the Challenge and Capturing the Digital Opportunity

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## Development of Open Innovation Initiatives And Internal Ventures

### BBVA Open Innovation

#### Innovation efforts driven at developing an Innovation Community (non-exhaustive):

- **Innova Challenge & Innova Apps:** Initiatives making use of **Hackathons** and **Datathons** to develop new ideas/prototypes and stay close to Digital talent
- **BBVA Open4U.com:** Digital environment to interact with developers and potential partners for **co-creation** through exposure of **BBVA's assets & means**
- **BBVAbetatesting.com:** Platform to get **product improvement** suggestions and product debugging

### Internal Ventures

#### Development of new and competitive digital businesses, different from the traditional business:

- **Independent, autonomous** and **global** business unit
- Leverages on **BBVA's capabilities** and **assets** as well as **external talent**
- **100% Digital Organization and Culture**, with no legacies

## Strategic Investments Through BBVA Ventures

### BBVA Ventures

- **\$100Mn** Venture Capital Fund (created Jan-13)
- Based in **San Francisco** but **global scope**
- Investments in **innovative financial services Startups**
- Capture **market intelligence** and develop **partnerships**

### Portfolio

**Direct Investments**

saveup

taulia

RADIUS

sum up

**Fund Investment**

**500**  
STARTUPS

Ribbit Capital

## Acquisition of Talent, Technologies, Business Models with Potential for Disruptive Impact on the Industry



SIMPLE

Pioneer  
Start-up in  
financial  
sector

Focus on  
User  
Experience

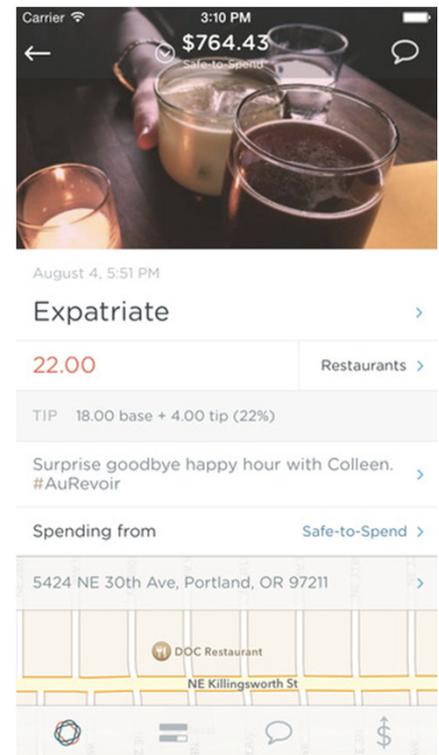
100%  
Digital

Simple replaces your bank with everything you need to spend smarter and save more.



- **Real-time** transaction processing
- **Automated** categorization, geolocation, tip & cash-back calculation
- **Photo attachments**, to provide additional transaction context
- **“Safe-to-Spend”** gives customers an immediate answer to *How much can I spend today without hurting myself tomorrow?*
- **Memos & hash-tags**

**The highest rated banking app for IOS & Android**



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# BBVA's Commitment to Digital Banking

Senior sponsorship and alignment within the Bank

Bold new organizational setup

New ways of working for faster execution

Cultural transformation

## Conclusions

- ✓ **Digital disruption** is transforming **life** and the world of **business**
- ✓ Focused **newcomers are disaggregating the financial industry** and transforming each vertical
- ✓ We are transforming our business **leveraging digital** to deliver the **best banking experience at the lowest cost**. Our goal is to grow our **customers**, increase their **engagement** and their **profitability**
- ✓ Early **evidence** shows large impact in driving **additional sales, improving experience** and **lowering costs** (in particular, transformation plan already achieving relevant cost efficiencies in Spain)
- ✓ Our recent investment in **technological platform** represents a **major competitive advantage**

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