Looking Ahead: Digital Banking

Carlos Torres Vila - Head of Digital Banking
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)

- 2013: 1.5 exabytes of mobile data per month
- 2014: 2.6 exabytes of mobile data per month
- 2015: 4.4
- 2016: 7.0
- 2017: 10.8
- 2018: 15.9

- 2.6 EB
- 7 BN mobile devices

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

Source: Cisco Visual Networking Index - Global Mobile Data Forecast for 2013-2018
¹ Any Digitally Connected Device: Smartphone, Tablet, PC, etc.
Banking Industry Impacted by New Customer Expectations and Behaviors

- Omni-channel
- Mobility
- Customization
- Transparency
- New contents
- Real time
- Smart Data
Acceleration of the Innovation Cycle

Faster and cheaper Innovation:

- Cloud Computing
- Code Sharing
- Collaborative tools
- APIs\(^{(1)}\)
- Digital Channels

Venture Capital investment fueling the innovation cycle

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\(^{(1)}\) Application Programming Interface
**BBVA**

**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

**Personal (or SMB) Finances**
- Automated and effortless personal financial management based on information

**Investment and Wealth Management**
- Customized portfolio analysis and investment advice

**Lending**
- Pre-approved credit offers based on customer information (risk profile and life event)

**Equity and Debt Financing**
- Capital markets access extension through Crowdfunding

**Transactions: Payments, Wholesale Markets**
- “Real-time” payment service and Buying-Selling financial assets

**Bitcoin and Alternative Virtual Currencies**
- Free and safe movement of money (or value) globally

**Advice for Products and Service**
- Independent advice vs Product Manufacturer

**Leveraging Bank Transaction Data and Services**
- Aggregated financial picture and APIs development
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

1. Transforming our Current Business to Digital Banking

2. Launching New Digital Ventures
BBVA
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

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

More Customers
Increased Engagement
Higher Profitability
Key Metrics in Our Transformation

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

Metrics displayed are non-exhaustive
Digital Channels Already Very Relevant

**Digital Active Customers**
BBVA Group - Million

- **Dec-11**: 5.0
- **Dec-12**: 6.2
- **Dec-13**: 7.5
- **Aug-14**: 8.4

CAGR +23%

**Mobile Active Customers**
BBVA Group - Million

- **Dec-11**: 0.3
- **Dec-12**: 1.3
- **Dec-13**: 2.4
- **Aug-14**: 3.6

CAGR +165%

Figures excluding Garanti Bank
Digital Behavior Correlates with Value

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

BBVA Spain

- Only Branch: 1.6 x
- + ATM: 1.0 x
- + Web (Inquiries): 1.6 x
- + Web (Transactions): 2.5 x
- + Web (Financial Products): 3.4 x

Core Clients in Spain (% Share)

- Only Branch: 25%
- + ATM: 28%
- + Web (Inquiries): 33%
- + Web (Transactions): 12%
- + Web (Financial Products): 2%
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**

Data as of: September 2014
Personalized Remote Customer Care

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

Cross-Sale\(^{(1)}\) of Remote Banking Advisors
BBVA USA - 2014 (early extension)

<table>
<thead>
<tr>
<th>No Remote Advisor</th>
<th>Remote Advisor</th>
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<tbody>
<tr>
<td>15%</td>
<td>25%</td>
</tr>
<tr>
<td>+66%</td>
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</table>

Sales Proactivity of Remote Advisors vs. Advisors at Branches
BBVA Spain - 2014

<table>
<thead>
<tr>
<th>Branch Advisors</th>
<th>Remote Advisors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.0x</td>
<td>1.7x</td>
</tr>
<tr>
<td>+70%</td>
<td></td>
</tr>
</tbody>
</table>

\(^{(1)}\) Cross-selling campaigns directed at digital customers
New Branch Network: More Convenient And Sales Oriented Branches

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

Branch Activity Breakdown
BBVA Spain

- Sales: 38% (2010), 45% (2014)
- Servicing: 41% (2010), 37% (2014)
- Back office: 21% (2010), 18% (2014)

Continuing effort to optimize network and associated cost
BBVA’s New Relationship Model is Already Showing Tangible Results

**% Cross Selling Campaigns Success**

- **BBVA Spain**
  - Traditional Approach: 3.0%
  - Based on Digital Alerts: 15.6%

- **x5**

**Sales FTEs as a % of Workforce**

- **BBVA Group**
  - Jul-07: 28%
  - Dec-13: 38%

(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

**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

**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)

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

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

**Operational Intelligence**

**Risk and Fraud**

**New products, new business**

**Customer Intelligence**
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

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**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)

(*) Illustrative projects in Spain. All projects to be rolled out in different geographies
BBVA

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**

(%)  
30% Decrease card fraud in three years

**Processing Capacity**

(Daily transactions)

- 0.01 Bn  
- 0.25 Bn  
- 1 Bn  
- 1.3 Bn

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

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

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

- **Fund Investment**
  - 500 startups
  - Ribbit Capital
BBVA

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

**SIMPLE**

- **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**

- 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.
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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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