

Trends

Our own new glasses to look into the future

Digital trends in BBVA Research

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The ability to anticipate disruptive changes is key to business survival. Although it is impossible to predict the future, forecasting methods and techniques can help to identify such changes early on. BBVA Research has developed a methodology to spot potential future scenarios for the financial industry so that it can serve as a tool to support strategic decision-making.

" Tomorrow belongs to those who can hear it coming ", David Bowie

Organizations' lifecycle turns out to be pretty similar to the one of living organisms. They are born and raised, they relate (and often partner) to other organizations, they consume and dispose resources in order to keep existing and, if lucky, they live enough to achieve goals and build something significant for others. Also like living organisms, their mere existence implies an inherent objective, that is, extending to the maximum possible their lifespan.

In order to do so, organizations have to continuously adapt to an often unfavourable and even hostile environment. The adaptation process, as in many species, involves the overcoming of different threats to the organization's health. Measures can be put in place to prevent many of these threats. A continuous monitoring of parameters indicating the state of corporate health is usual, as it is the implementation of preventive processes to avoid the most habitual "corporate diseases" .

The analysis of the history of businesses shows that threats coming from a change in environmental conditions are constant. Corporations are aware of this and are accustomed to develop the needed mechanisms and skills to quickly adapt and survive to these changes. However, once in a while, there are periods of deep and fast changes, which result in the death of a significant number of organizations. The causes are diverse, but the main underlying reason is the inability to properly identify and/or assess the coming change and its implications for the health of organizations. This is specially important in the current period, when changes are faster than ever and, as a consequence, time to adapt is shorter.

Foresight is a discipline aimed to the early identification of potential future changes and the most accurate assessment of the impact that these changes can have on a certain business. Foresight is NOT prediction. It is impossible to predict the future. But it is possible to have educated guesses based on information about past series of events and a certain level of expertise in the processes that make up a good forecasting set of skills.

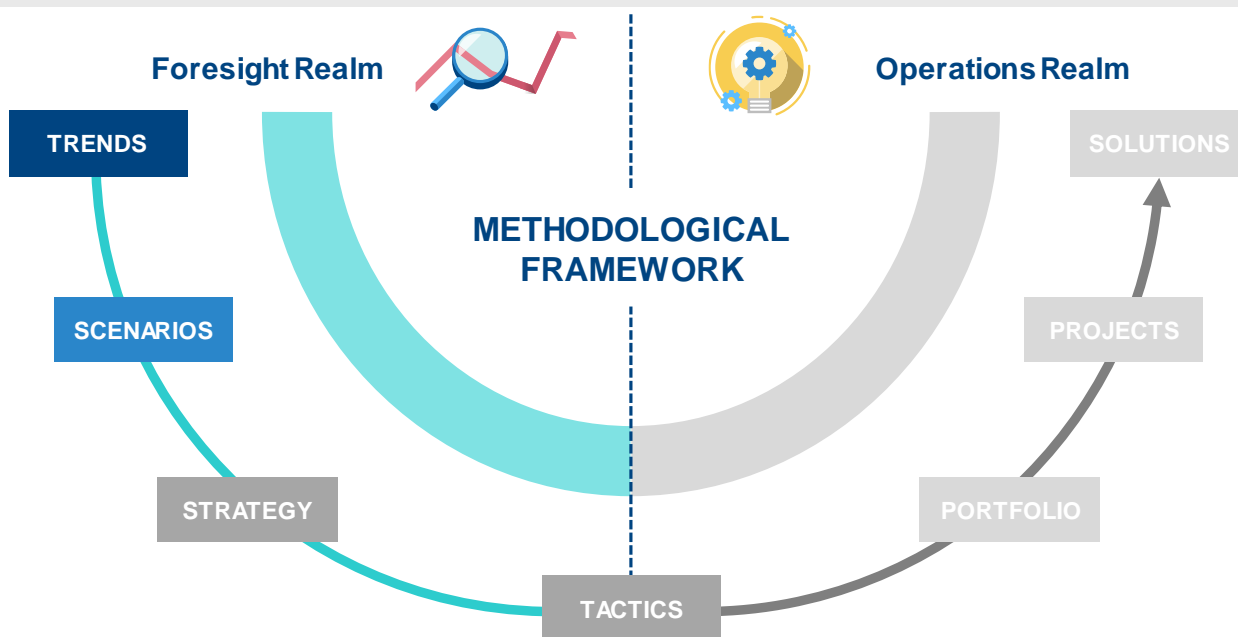
But, although THE future is impossible to predict, it is possible to depict a number of potential futures. What is going to happen in the next years will grow from the seeds of what is happening today. Signals of things to come are all around us, and it is one of the main tasks within foresighting to identify and interpret them.

Signals present themselves in many different disguises. There is not a simple method for identifying if something is a signal or not. Only a systematic monitoring of reality together with a team with the adequate skills can help in this tough task. The most important thing is that connecting signals is the way that we identify trends. Apparently unrelated signals are nevertheless connected because they are different manifestations of an underlying idea or current oriented in a certain direction, which is what we call a trend.

Creating Opportunities

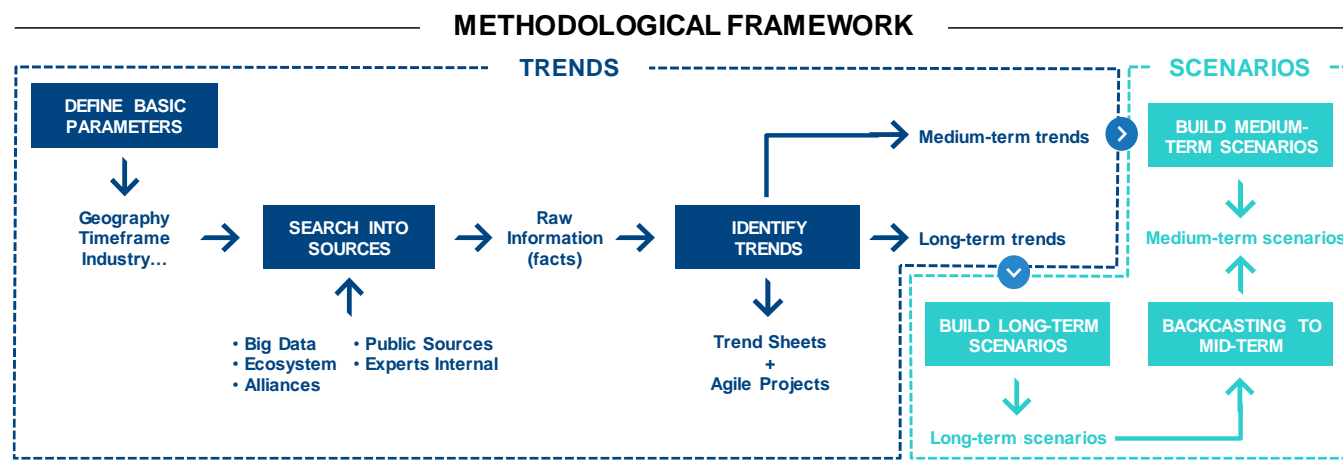
The trends, in turn, can be classified according to what we might call their "size." In this context, size means reach (in time, space and people or companies), influence and potential impact of transformation. Following this classification, trends can be considered - in growing size - as microtrends, trends, macrotrends, and megatrends. Each category is usually embraced by the following, so one megatrend includes several macrotrends, which entails a number of trends that are composed by a myriad of microtrends.

Figure1 From Foresight to Solutions: The "U" curve



At BBVA Research, we have developed our own methodology to identify trends and depict future scenarios that can serve as an input for those areas in the bank dedicated to strategy thinking. This methodology is expected to be valid for any kind of timeframe, geography, input and type of final outcome desired.

Figure 2 Methodological Framework: The whole trends and scenarios process



First step is to decide the scope the work is to be done: timeframe (short, medium or long term); geography (global or restricted to an specific area); types of drivers to consider (depending on whether we focus on one or several sectors); expected types of outcomes for each scenario; and, action points' format if necessary.

Continuous scanning allows the early identification of new trends, and evolution or disruption of existing realities. By analysing and clusterization of trends, we define which are the main drivers that lead to change.

General trends in the social, political, economic and consumer behaviour fields allow us to draw a vision of the world as we see it in the chosen time frame. When working in a medium term (five years), changes produced by these variables are not usually particularly disruptive - unless an unforeseen catastrophic event occurs - due to their relatively slow evolutive pace. However, in the long term, these trends can be (and indeed are) an important driver of change and must be treated as such.

In the world sketched from these variables, the three main drivers of change whose evolution will configure the different scenarios and push the transformation of financial services and hence banks are, according to our methodology:

- Regulation plans and trends. Outcome is clear when we work on medium term scenarios, as regulatory cycles use to be defined for several years on, but for long term scenarios, trends are usually less clear, as often depend on political decisions difficult to anticipate.
- Markets trends. We consider as market trends everything that affects the dynamics of competition of companies, business models and the relationship between the different competitors of an ecosystem.
- Technology trends. Being technological evolution one of the main causes of change it is key to consider how existing technologies and their adoption evolve, and spot the surge of new technologies.

The combination of the drivers of change will draw a number of potential future scenarios for the financial services industry and the players within. Most likely scenarios will be selected for a deep analysis. Each scenario will be described following established rules. Specific action points will be identified for each scenario related to the strategic priorities of the bank.

Description of each of the selected global scenarios will include the following sections:

- 1) Description of the global scenario: brief description of the regulation, market and technology sub-scenarios underlying the scenario and potential consequences of their combination
- 2) Description of the Financial Services ecosystem:
 - a) Categories of players and their roles (main functions provided), including new potential players from other industries or built from scratch (like fintech startups.)
 - b) Competitive dynamics for incumbents, including collaborative cross-industry models.
 - c) Regulatory issues to be addressed.
- 3) Description of the adaptive bank model, including changes needed in each of the basic components of a financial institution in order to align with this model.

For each global scenario a series of action points could be identified describing how it would affect the main components of a financial services company.

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