

Trends

Our own new glasses to look into the future

Digital trends in BBVA Research

Javier Sebastián / Alicia Sánchez

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.

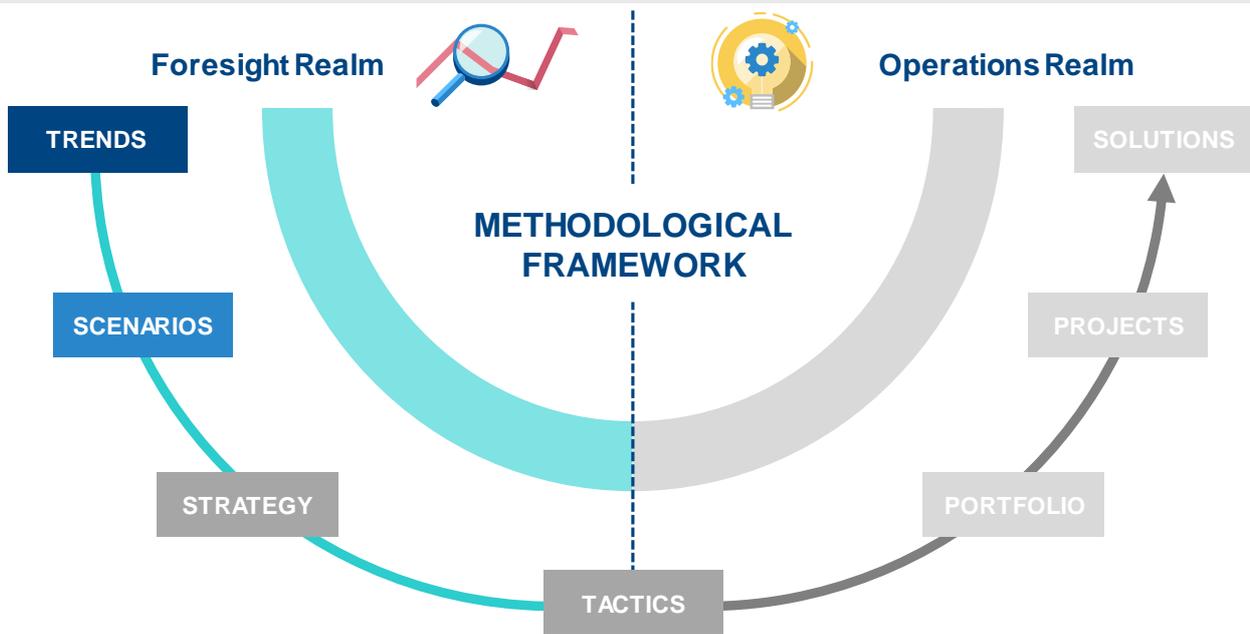
But, although THE future is impossible to predict, it is possible to depict a number of potential futures. What is going to happen in the next years will grow from the seeds of what is happening today. Signals of things to come are all around us, and it is one of the main tasks within foresighting to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

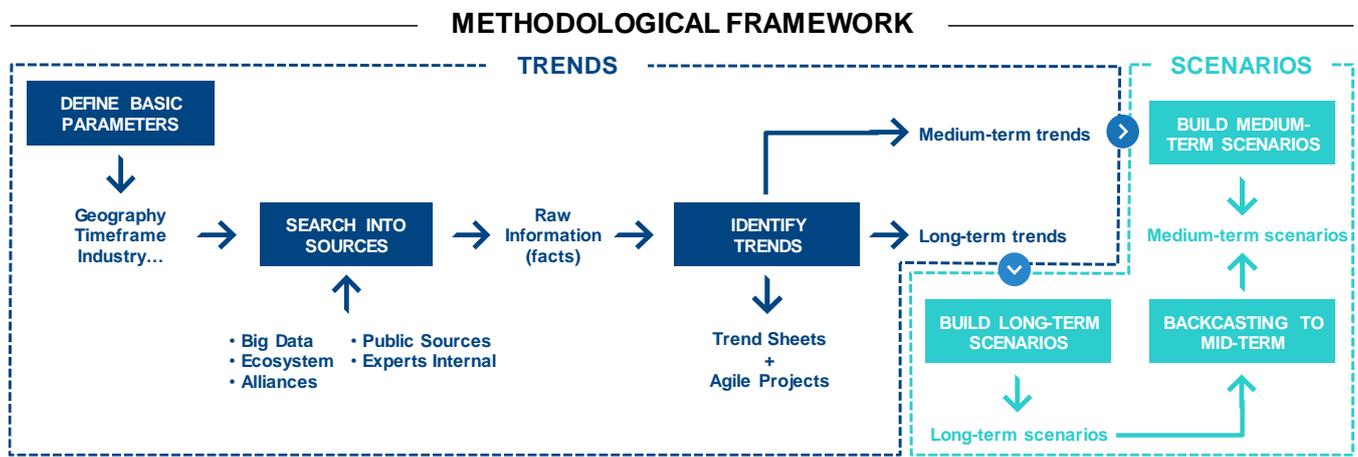
The trends, in turn, can be classified according to what we might call their "size." In this context, size means reach (in time, space and people or companies), influence and potential impact of transformation. Following this classification, trends can be considered - in growing size - as microtrends,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

DISCLAIMER

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.

This report has been produced by the Digital Regulation and Trends Unit

Chief Economist

Álvaro Martín

alvaro.martin@bbva.com

+ 34 91 537 36 75

Marta Andonegui

marta.andonegui@bbva.com

Jesús Lozano

jesus.lozano@bbva.com

Javier Sebastián

jsebastian@bbva.com

Alfonso Arellano

alfonso.arellano.espinar@bbva.com

María Villar Ochoa

mariavillar.ochoa.becas@bbva.com

Ana Isabel Segovia

ana.segovia@bbva.com

Noelia Cámara

noelia.camara@bbva.com

Lucía Pacheco

lucia.pacheco@bbva.com

Edward Corcoran

edward.corcoran@bbva.com

Alicia Sánchez

alicia.sanchezs@bbva.com

BBVA Research

Economista Jefe Grupo BBVA

Jorge Sicilia Serrano

Análisis Macroeconómico

Rafael Doménech

r.domenech@bbva.com

Economía Digital

Alejandro Neut

robertoalejandro.neut@bbva.com

Escenarios Económicos

Globales

Miguel Jiménez

mjimenezg@bbva.com

Mercados Financieros Globales

Sonsoles Castillo

s.castillo@bbva.com

Modelización y Análisis de largo

plazo Global

Julián Cubero

juan.cubero@bbva.com

Innovación y Procesos

Oscar de las Peñas

oscar.delaspenas@bbva.com

Sistemas Financieros y Regulación

Santiago Fernández de Lis

sfernandezdelis@bbva.com

Regulación Digital y

Tendencias

Álvaro Martín

alvaro.martin@bbva.com

Regulación

Ana Rubio

arubiog@bbva.com

Sistemas Financieros

Olga Cerqueira

olga.gouveia@bbva.com

España y Portugal

Miguel Cardoso

miguel.cardoso@bbva.com

Estados Unidos

Nathaniel Karp

nathaniel.Karp@bbva.com

México

Carlos Serrano

carlos.serranoh@bbva.com

Turquía, China y Big Data

Álvaro Ortiz

alvaro.ortiz@bbva.com

Turquía

Álvaro Ortiz

alvaro.ortiz@bbva.com

Asia

Le Xia

le.xia@bbva.com

América del Sur

Juan Manuel Ruiz

juan.ruiz@bbva.com

Argentina

Gloria Sorensen

gsorensen@bbva.com

Colombia

Juana Téllez

juana.tellez@bbva.com

Perú

Hugo Perea

hperea@bbva.com

Venezuela

Julio Pineda

juliocesar.pineda@bbva.com

ENQUIRIES TO:

BBVA Research: Calle Azul, 4 Edificio La Vela, Floors 4 & 5 28050 Madrid, Spain. Tel. +34 91 374 60 00 y +34 91 537 70 00 / Fax (+34) 91 374 25 - bbvaresearch@bbva.com www.bbvaresearch.com