Welcome to the Lend Academy Podcast, Episode No. 124. This is your host, Peter Renton, Founder of Lend Academy and Co-Founder of LendIt.

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Today’s episode is sponsored by LendIt USA 2018, the world’s leading event in financial services innovation. It’s going to be happening April 9th through 11th, 2018 at Moscone West in San Francisco. We’re going to be covering blockchain, digital banking and of course, online lending and other areas of fintech. There will be over 5,000 attendees, over 250 sponsors and registration is now open. Just go to lendit.com/usa to register.

Peter Renton: I am here at LendIt Europe with Gustavo Vinacua, he is with BBVA and he’s actually the founder of a new venture inside BBVA and he’s previously been the Director of the innovation center so we’re going to be talking a lot about innovation today. Welcome to the podcast, Gustavo!

Gustavo Vinacua: Thank you, thank you for inviting me.

Peter: Okay, so why don’t we get started. I like to give the listeners a little bit of background about yourself, about what you’ve been doing in your career up to now.

Gustavo: Yeah, sure. So I joined BBVA back in 2010 to run Open Innovation and the innovation centers globally. So we opened an innovation center in Madrid in 2011, one in Colombia, in Bogota in 2012, and then we also opened one in Mexico a few years after. In 2010, I joined BBVA; before that I was working at Xerox, the R&D labs for Europe, helping them to capture value out of the intellectual property they have so we were setting a plan to launch a few ventures also out of using their technology they had developed.

Before that in the telco industry, I’ve been doing analytics and business development innovation as well. In parallel, in my previous career, I was also launching/building a few businesses so you can say that now I’m sort of getting back to my entrepreneurial roots and since sort of a year ago, I’ve been building this new venture from within BBVA.

Peter: Right, okay we’re going to get into that in some depth in a bit. Before we get into your new venture, I want to talk about sort of the innovation center because BBVA, I think, is pretty renowned for being a fairly forward thinking company, particularly when it comes to fintech. So tell us about the work specifically, what are you trying to achieve with the innovation centers?

Gustavo: The innovation centers have been very important for us in allowing us to interact with the external ecosystems. So, as I said, we started back in 2010, these specific spaces are very important for us, as I was saying, to interact with the external ecosystem, but on a daily basis. Part of the building in Spain, for example, in Madrid, it’s sort of an open space so it’s a public space so it’s full of events and activities. The idea when we started that years ago was to find a means to interact in a natural way.
It’s for us very important because it keeps us very close to the talent and ideas out there. On the other hand, it’s also a very interesting space to inspire others inside BBVA so most of the teams involved in innovation activities live in the innovation center so we interact very naturally with the external ecosystem, but we also get other colleagues to visit us and they can also interact and play active roles in the activities we have there.

Peter: Okay, so are you like encouraging startups to come in and just set up shop there or is this something where you incubate companies like a regular incubator?

Gustavo: Yes, some of them; some startups live with us, some another place, the local ecosystem in Madrid, for example, live with us at the innovation center. So there’s plenty of activities, events, workshops, lots of stuff happening, but they’re also working there every day. That’s the interesting part of it.

Peter: It’s interesting. You’ve done some really interesting investments as a company. Atom Bank, I know you own a good chunk of Atom Bank in the UK, you acquired Simple in the US several years ago. You’ve invested in Prosper, in Coinbase; these are all sort of cutting edge fintech companies that I just described so I’m just trying to get at what are you trying to achieve with your venture investing, is this sort of connected with the innovation kind of philosophy there or is this something separate?

Gustavo: It has all to do with leading the transformation of the industry and speeding up the process of transforming ourselves and the industry. So it has to do with getting close to the talented ideas out there, close enough in some cases to acquire those capabilities or technologies that others have built so investing and acquiring. One example would be the Spring Studio acquisition, it’s a customer experience and design firm in California that led us to speed up the process of having that sort of talent and capabilities inside BBVA.

Peter: Okay, so then do you have a specific approach in the fintech ecosystem, in these places where you are looking to invest, looking to acquire, you’re looking to partner; what is the BBVA approach?

Gustavo: As I said we want to make sure that we are close to the talent and ideas so you never know what is going to happen so we want to make sure that we can offer something. A good example of that would be our work on the open platform side, the API market product which we are exposing part of our assets and features for others to build using those features.

So every time we are in a specific ecosystem, what we want to make sure is we’re close enough to talents and ideas, we give something and we play an active role there. What can happen after that? Of course, you can end up identifying talent that can get to work for us, you can identify specific technology you’re going to acquire to speed up the process or investments, partner with others. In some occasions, as I was saying, we prefer to build from within some of the ventures or innovation opportunities we want to explore.

Peter: Right, let’s move on to that. So you’ve got this new venture called Trustu.es, that’s a Spanish language website, but it’s a small business lending platform.

Gustavo: Yes.
**Peter:** It's an online small business lending platform and you said you're the founder of it, why did you decide on that particular problem like small business lending is obviously a very big industry, you guys are doing it yourself I’m sure in many capacities, why decide to launch an online small business lending platform?

**Gustavo:** Yeah, in this case it's about helping small businesses access finance, in particular small businesses in the first few years of operations they struggle the most, I mean, they really have a hard time getting access to finance, so thin files, very little information to show that they're going to be able to repay those loans. The whole idea is to give access, help them access finance.

The reason why we have started building this from within BBVA is because in this specific case we have a data asset that is very, very important. So we’re of course, building a specific piece of technology that has to do with the risk assessment piece, at least one part, because this is a combination of I would say sort of a more traditional but with the latest technology, more traditional, I would say, risk assessment combined with a social underwriting piece. So if others lend the SME some money, we may also be interested in lending to them.

**Peter:** Can you just maybe explain the platform a little bit, how does it actually work?

**Gustavo:** So what we did is we know that there are lots of small businesses trying to access finance and we know that what happens in real life when others don’t lend them money is that it’s friends and family who trust them and lend them money. So what we have built is a platform that brings together loans from the inner circle of the SME and contributes with additional finance on top of that, based on a new risk model. This additional finance is our own money lending to them, it's a hybrid sort of a model. The way it works is we ask small businesses to register and connect their bank account, the bank account they're using to manage their business, we go get some information and combine that data and we calculate the trust index, that's a score, of course.

So if they pass this first analysis then we ask them…if you get a bit of the money you need from your friends and family, we'll lend you the rest. So that is the way the model works. They get the money from friends and family in a private way so they don’t have to create a campaign, it’s not about crowdfunding, so they don’t have to just go out there explaining what they want to do. They may just send an email to a good friend or a parent, family members and they get some of the money from them. If that happens and we confirm that that happens, we lend the rest of the money they need.

**Peter:** Is there a certain percentage they have to obtain before you’ll lend them the money?

**Gustavo:** That is part of the model is of course calculating how much of the money from friends and family we may need. Of course, it's also part of the process of learning we are having.

**Peter:** Right, so I guess if someone has…you might think they’re a bit higher risk, you might say they need 50% or they need a higher percentage than someone who’s lower risk?

**Gustavo:** That could be the case, that could be the case. It's not really like that linear, but that could be the case, yeah.
Peter: Right, okay. And so you mentioned earlier that you wanted to build this in-house because you have sort of the data, what did you mean by that? What sort of data...because this is not just BBVA customers, this is open to anybody?

Gustavo: Yeah.

Peter: So what is the data advantage that you have that you wanted to build this in-house?

Gustavo: I mean, BBVA is a large bank so we've been lending money, as you were saying in different capacities to SMEs so there's plenty of know how and data about small businesses that you can leverage in building something like we have built, of course. So that's the reason why we did it.

Peter: Okay, so these are smaller loans? Are these loans that the bank wouldn't necessarily do or is this something that is competing with some of your existing products?

Gustavo: Well I would say that both banks and alternative lenders tend to unserve this specific segment. So small businesses in the first few years, maybe two years/three years of operations, it's a specific segment that both banks and alternative lenders tend to leave outside and they're hugely unserved. So in that sense, it's not really competing directly, but of course, the whole idea is we want to disrupt the way this is done in a way that is really finding ways to help small businesses and that could also lead to extending the use of this sort of model in other segments, of course.

Peter: Right, I'm curious about the extension of the model, maybe extending the model to other countries I'm curious about because your name is Trustu.es, so it's a Spanish language website with an English domain so does this mean that...BBVA is obviously in many, many countries around the world, is this something that you're planning on expanding geographically?

Gustavo: Yes, of course, the whole reason behind launching this sort of a venture is learning, of course, and trying to identify specific ways to do things in a different way, in a better way. So if we find a way to serve small businesses, these specific small businesses, in a way that fits to them, of course, we would be interested in doing that at a different scale, not just in Spain. So I would say that any entrepreneur out there would answer the same way to such question.

Peter: (laughs) Right, right, but clearly, you've approached it with the intention, I'm guessing of...this will not just stay in Spain, otherwise, you would have had a Spanish name, right?

Gustavo: Yeah, we've been leading the industry transformation so, of course, in that sense we're ambitious and if things go the right way that would be something reasonable to done, yeah, sure.

Peter: I know this is brand new, I mean, how long ago did you launch this, when did it go live?

Gustavo: So we went live a month and a half ago, something like that, so it's pretty new. We have just started out there live, small businesses are registering and asking for loans so we are pretty happy.
Peter: Okay, so then are you...the segment you said these businesses, they’re going to get funding from their parents or their friends and family or whatever, and you’re going to verify that, does this mean that you’re taking on riskier loans than you would’ve done otherwise?

Gustavo: What it means I would say, it means that we are bringing this piece of social underwriting, this social underwriting element to the equation so if others...and the way I normally explain this is we’re four brothers and to my youngest brother I don’t lend him any money for his businesses.

Peter: (laughs)

Gustavo: I love the guy, but I wouldn’t lend him money for his businesses. No, but it is true, I mean, we are able to score others and to decide who to lend to and who not to lend to so that element is very important and we are trying to learn and use that specific element in a smart way to help us give access to finance to one specific segment that struggles to access financing.

Peter: So can you just give us a sense of the typical terms of these loans like what is the typical loan size, what’s the duration of the loan, the interest rate, just average kind of ranges?

Gustavo: These days the product is a very simple product and it’s up to 30,000 Euros, two years term and it’s a regular unsecured, which is also important to be said, loan, 30k max.

Peter: Interest rates, is there a range of the rates?

Gustavo: We are trying to be....so this is giving access to finance so it’s about access. Price shouldn’t be the main thing, but of course, we’re trying to be in the middle between banks and alternative lenders that are, maybe in some cases, too high so right in the middle.

Peter: Right, right, okay.

Gustavo: Maybe a little bit overlapping on both sides.

Peter: Right, when did you start this idea, like how long did it take? Let me back up a second, I don’t know whether you know New10 which was ABN AMRO. They just launched a small business lending platform in the Netherlands, they were onstage earlier today at LendIt Europe here and they talked about really trying to do this very quickly, it was 10 months for them from the conception to actually launch and I’m just curious about you guys. Is this something that you’ve been working on for years or has it been a relatively quick process?

Gustavo: No, it’s a matter of months. In fact, this is an interesting question because, you know, part of the conversation is about big corporations collaborating with startups and big corporations tend to see startups....I mean, I’m over simplifying, but they’re nimble, agile, they are quite accurate in finding specific forms of value props to get to the point, right, but nimble and agile so we’re trying to mimic what they are doing.

So we’ve been doing that, yeah, it’s been months, that’s the whole idea. So from scratch, building a new team from scratch, all of them from outside BBVA with the exception of myself and a very powerful team, and a small team. Again, in months we went from scratch to having
the product out there so yeah. That's one very important thing because it also helps us learn throughout the process how to manage this type of activity to ensure that we can make it more recurrent, right.

**Peter:** So you're trying to create a new company. Is this going to be culturally a different thing like obviously you've got startups and you go to a big bank and the culture can be very, very different. Is this a blend of the two or are you more at the startup end of the spectrum?

**Gustavo:** We're more of a startup in terms of...culturally, yeah. So we live in the innovation center, in the 2nd floor so we are in a way separate from the headquarters. The type of team, if you see the picture of the team, I mean, it's not what you would expect from a bank, I would say, to avoid being too frivolous, but yeah, it's more on the startup type of a culture. But I have to say that in our case we are so fortunate to be working within BBVA because the BBVA culture is also amazing, it's incredible.

In my specific case, as I was commenting with you before, my colleagues and bosses allowed me to step back from my previous job running the innovation center, because I wanted to get back to my entrepreneurial roots and build this new team and this new business from within with all the support from my colleagues and other pieces from within the bank, compliance and lots of stuff so you know we are in a heavily regulated industry so that also makes a lot of sense so we are so fortunate. So it's a startup type of a culture, but within an amazing big corp culture as well.

**Peter:** Right, and you don’t have to go around to people trying to raise money because you have a big corporate who can, I presume, provide you with a budget to get this business off the ground.

**Gustavo:** Yeah, sure, but I wouldn’t say...that’s not the biggest part. The biggest part is allowing us to do what we want to do because yeah...

**Peter:** That makes sense, that makes sense. I've been to your website, I'm curious about mobile because I've read a lot of stuff about what you guys are doing with mobile, is this going to be a key part of the strategy for Trustu or is it going to be more of a web-based initiative?

**Gustavo:** These days it’s a responsive web, these days because we started that way for the sake of keeping this simpler, I would say. So it is that way for now. It's not one of the main concerns for us these days, we've got to test a lot of business hypothesis, got to learn a lot in other ways so the mobile is, I would say, complex in that sense. So mobile or desktop in this specific case, I wouldn’t say it’s the biggest thing that keeps me awake at night.

**Peter:** But if you start looking down the track, I mean, how important is mobile in not just with this particular initiative, but I mean, BBVA I feel like has been more than the typical large bank has done a lot of interesting things when it comes to mobile and done some….what I’ve seen and what I’ve read about likes to push the technology envelope. What I’m trying to get at is do you see mobile as sort of the future or how important is it in not just your venture but in banking overall and BBVA’s overall strategy?

**Gustavo:** Oh, I'll give you my...I don't have a very active role in the strategy of mobile, but I do know that, of course, we have the best mobile app in the world these days so I’m proud of that.
But my personal opinion, I’m a father of two kids and I have a niece and nephew around and when you see them interacting with their mobile phones, it’s so embedded in all of what they do throughout the day. So, of course, it’s very important, it’s very important. In our case, we have a big part of the traffic these days for Trustu is coming from mobile devices, so yes, it’s very, very important, definitely.

**Peter:** Okay, so we are running out of time here, but I wanted to just get your thoughts as someone who... you spent several years here at a large bank and we keep hearing about the impact of technology and this conference is a lot about the future of banking in general, how do you think banking, in general, is going to change over say the next five to ten years?

**Gustavo:** That’s a tough one, that’s a tough one, definitely. So as you were mentioning mobile and digital channels are already an important part of our business and if you say five years, I mean, that’s going to increase and increase and it’s going to be more and more relevant. So technology, we have seen amazing stuff coming out and changes are happening at an incredible pace so I’m very, very interested in blockchain, as everyone else I guess, but in a way that’s really transforming our industry and data.

For me, Trustu is a lot about data, it’s a lot about building a business out of the data we can get/consent to access, but for me it’s also about being able to loop the data back to the SMEs and help them make better decisions with that data. So one important challenge for us is to find ways to ensure that we are transparent and clear and that we ask consent and use the data in a way that helps us build a business but also helps the end user in other ways. So I want to make sure that we get the data, do something with that and get it back with some extra value for small business owners to make better decisions. So data is going to keep transforming our lives and definitely, our industry.

**Peter:** Okay, well on the note we will have to wrap it up. I appreciate you coming on the show today, Gustavo.

**Gustavo:** Thank you.

**Peter:** Okay, thank you.

Really fascinating talking with Gustavo and talking to others here at this event. I mentioned the New10 initiative that is coming from inside ABN AMRO, there are others going on throughout the world where banks are launching fintech platforms, either by partnering with a fintech company, by developing their own technology in-house, but banks have moved from researching this space and looking at different options. They’ve moved into action and we’re seeing some of the more forward thinking banks actually launch new initiatives. I think it’s a fascinating time to see what companies with very strong balance sheets with a lot of money to throw around, what they’re doing to address sort of the gaps they have in the market and address some of the real needs of the market and that’s what I think we’re seeing here with the Trustu initiative from BBVA.

Anyway on that note, I will sign off. I very much appreciate your listening and I will catch you next time. Bye.
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