HUB24: the future is now

Part 3 – Building trust in the digital world

HUB CONNECT

Welcome to the final instalment of our three-part series – "The Future is now" – where we focus on technology, innovation and navigating change in the financial advice industry.

We've developed this series to help equip you for what lies ahead. In each instalment we discuss a range of new and exciting trends, as well as interpreting how they will shape the financial advice landscape in the years ahead.

We'd like to thank the following experts whose insights have made this research series possible:

- Dr Charlotte Marra – now a Partner at Deloitte
- Rocky Scopelliti – Futurist and author of *Australia 2030: Where the bloody hell are we?*
- Daniel Teper – M&A Adviser and Head of Fintech, KPMG

In Part 3, we look at how the concept of consumer trust is changing and explore what this means for adviser-client relationships.

Trust and value propositions are crucial in the provision of financial advice, yet they are concepts which are significantly altered in an increasingly digital world. This is because the things in which we place our trust have not yet evolved with the data-driven transformation currently happening within the industry.

As futurist and author Rocky Scopelliti noted: "Conventions of privacy, security and identity were never designed for a digital life, but we're all living a digital life now – and what hasn't changed are our conventions and notions of trust."

Scopelliti has also observed the transfer of trust that is occurring in this digital world. As our lives become more decentralised and move away from institutions and towards robots, one in three Australians say they would now trust a robot to make decisions on their behalf.[1]

In financial advice, technology and innovation are bringing new efficiencies and scale, as well as opportunities to make some fundamental improvements to the cost and accessibility of advice. Trust is a central consideration as the industry moves down this path, and one which will require collaboration – not only within the industry, but with the enabling technologies themselves – to deliver an advice experience that clients value.

1 R Scopelliti, *Australia 2030: Where the bloody hell are we?*, 2021.

Australians value advice more than ever

Who do people trust in the digital world? The answer to this question is changing – and it's not surprising when you consider that on average, Australians have approximately 26 online relationships with a range of service providers including airlines and banks.[2]

While trust in the financial services industry took a hit following the Hayne Royal Commission, research from early in the COVID-19 pandemic showed that more Australians than ever are motivated to get financial advice.

According to 2020 figures from research group Investment Trends, 2.6 million Aussies said they intended to seek help from a financial adviser over the next two years, up from 2.1 million in 2019 and double the levels seen in 2015.[3]

The pandemic also drove greater engagement between advisers and their clients, with 44% of non-advised Australians saying the COVID-19 situation had increased their likelihood of seeking advice.

Financial advice has certainly evolved over the past decade as technology and innovation continue to shape both the operating environment and the way advice is delivered. Technology has also changed consumer expectations through innovations such as robo-advice, which provides a 24/7, accessible and trusted source of advice. Robo-advice enables consumers to ask questions and be self-directed through an automated service, giving them a real-time advice solution that keeps up with the pace of their lives.

Meanwhile, bionic advice, which also gives consumers the option to reach out to a financial adviser at any point in the advice process, provides a 'best of both worlds' approach that unites digital and human advice.

These sorts of tools have forced us to consider the impacts that digitisation has on trust – and who consumers put their trust in. As our trust of institutions has profoundly changed, our notions of trust have moved from "Who do we trust?" to "What do we trust?"

"Traditional notions of trust were never designed for a digital life," said Scopelliti. "A digital life and trust are all about decentralisation, and we've seen this in the way that we tend to be strongly influenced by online reviews of products and services by strangers."

According to Scopelliti's Australia 2030 research, Australians trust academics and research institutions the most and governments the least. This could be due to the value we place on independent thinking, and the belief that researchers and academics have more independence than governments. Further, more than half the population said that over the coming decade they would trust technology more than governments, banks and other institutions.

"We shouldn't be thinking about trust as being an either/or when it comes to technology and individuals; I believe it's going to be the augmentation of the two," said Scopelliti. "It will be about how people use technology, whether they're financial advisers or travel service providers."

Rocky Scopelliti

Futurologist

"A digital life and trust are all about decentralisation, and we've seen this in the way that we tend to be strongly influenced by online reviews of products and services by strangers."

2 Ibid.

3 Investment Trends, *Financial Advice Report,* July 2020.

How technology enables interconnected trust

The concept of interconnected trust is where trust is passed along the value chain, irrespective of the method of delivery. This is set to become increasingly important in financial advice.

In this model, people will be given back control over their identity, privacy and security rather than it being handed over to institutions. We are already seeing this with the advent of robo- and bionic advice – capabilities which will help advisers cement trust and relationships, while adding to the value of advice and fuelling the demand for holistic advice.

Emerging technologies such as artificial intelligence (AI), blockchain, biometrics and the Internet of Things will further recreate our traditional notions of trust, identity and security. Innovations such as smartphones, which now scan our faces and fingerprints to provide access, are making these tools much more user friendly.

Today, the concept of interconnected trust is mostly being facilitated to leverage technology so as to create efficiencies. According to Investment Trends, this is leading to a greater demand for integration between an adviser's chosen technologies, with a growing proportion of advisers now using data feeds from platforms to planning software (49% up from 45% in 2020) and integrated cash modelling tools (28% up from 24%).[4]

Daniel Teper

M&A Adviser & Head of Fintech – KPMG

"I don't know if anyone's globally cracked robo-advice as a solution and gotten it to be flawless and a genuinely competitive substitution for human advice."

More broadly, digitisation and innovation in the financial services industry to date have focused on automating and supporting existing practices. For example, in credit decisions, robots may be used to gather data and present it in a specific format. And in some cases, the robot will make the lending decision. The financial services sector has also invested in robo-advice technologies, but there's still a way to go before these can deliver a seamless service.

"I don't know if anyone's globally cracked robo-advice as a solution and gotten it to be flawless and a genuinely competitive substitution for human advice," said KPMG's Daniel Teper.

Typically, low-involvement interactions and flows that are quite transactional are where digitisation starts, with chatbots proving increasingly successful in solving basic customer service issues. However, this does change as the issues become more complex. Scopelliti notes that consumers are typically happy to do digital banking for low-involvement activity, but for things like a mortgage, they want to talk to someone.

"When the involvement is high and the issue has some degree of complexity, then people will want to talk to a human," he said. "It's important to remember that it's the augmentation of the technology with the human interaction at the complex end of advice which is really key here."

4 Investment Trends, *Financial Advice Report,* July 2020.

Belief and transparency

Consumer appetite for digitisation, in particular augmentation, will be a key determinant in the financial advice industry's progress with technology and innovation.

Currently, most augmentation is used to support physical human interaction, but this will change over time as consumer behaviour changes, and consumer demand for such services catches up to meet supply.

New entrants to the mortgage market such as Athena and Nano, which offer completely digital-only solutions, have been successful in establishing businesses that offer end-to-end, approved and documented mortgages, without necessarily having to speak to anyone.

Dr Charlotte Marra

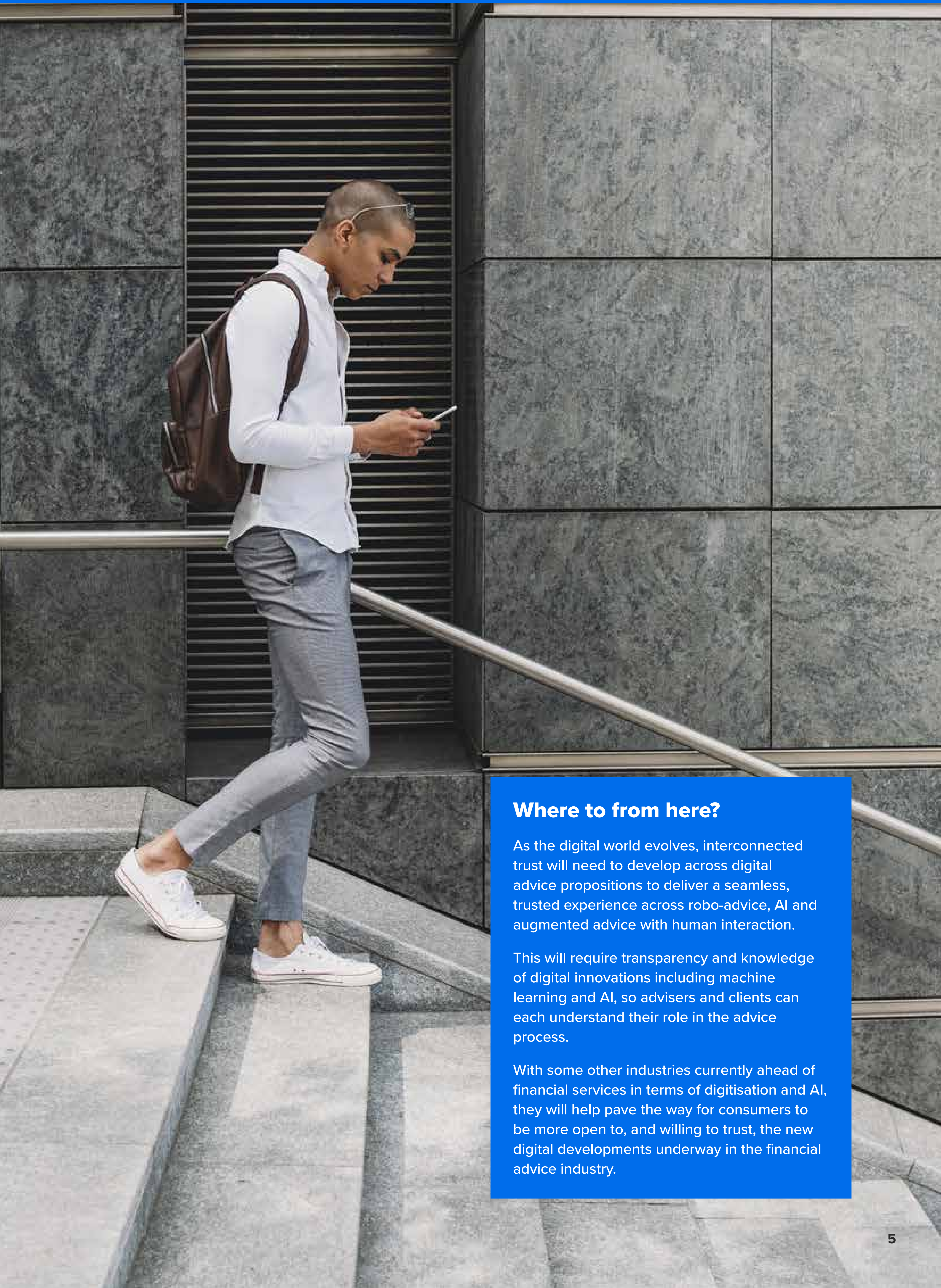
Now a Partner at Deloitte

"It is the transparency, the understanding and the 'explainability', which are absolutely key to moving forward."

Australia's industries are at different stages in their journey to adopt digitation and AI. According to Dr Charlotte Marra, the financial services industry sits in the middle when compared to other industries. She says that belief and transparency will be key to increased rates of adoption within financial services.

For the industry to believe in AI and machine learning, it will need to determine how the capabilities these innovations offer compare to a human's.

"This all revolves around transparency, so understanding how the models arrive at their decisions is critical to the use of AI in financial services," said Dr Marra. "It is the transparency, the understanding and the 'explainability', which are absolutely key to moving forward."



Where to from here?

As the digital world evolves, interconnected trust will need to develop across digital advice propositions to deliver a seamless, trusted experience across robo-advice, AI and augmented advice with human interaction.

This will require transparency and knowledge of digital innovations including machine learning and AI, so advisers and clients can each understand their role in the advice process.

With some other industries currently ahead of financial services in terms of digitisation and AI, they will help pave the way for consumers to be more open to, and willing to trust, the new digital developments underway in the financial advice industry.

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