



Australian Government
Australian Trade and Investment Commission

Asia Insights
**Innovation in
Digital Financial
Advice**

Japanese Webinar Highlights

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Vivien's remit spans across sectors such as advanced technology, research and development, the start-up economy, future cities, defence, space and financial services.



Vivien presented opening remarks, beginning with a reminder of the strength of the strategic, economic, and security partnership Australia shares with Japan.

This special partnership has been built on an enduring and complementary understanding between our two countries, shaped by a remarkable commercial relationship dating back to the late 1950s.

Today, Japan is Australia's second largest trading partner and second largest export market. Japan is also a key, long-standing source of foreign direct investment for Australia. In 2019, prior to the COVID pandemic, over 620,000 Australians visited Japan for tourism and business purposes. This was a 40% increase on figures from just three years prior, highlighting Australia's keen interest in building even closer ties within Japan.

We know Japan is at the forefront of technological progress. And in recent years, Australia has demonstrated great success in digitalisation to rapidly transform its financial services sectors. Innovation and technology are changing the way consumers interact

with financial products, providing increased efficiencies for institutions as well as providing a way for institutions to interact with their customers.

It is important to note that Australia's financial services industry is one of the largest contributors to the stability and growth of the Australian economy. However, there is a growing advice gap. Australians increasingly need advice to manage their investment, insurance and retirement needs, but are less able to access financial advice. The traditional financial adviser model, which services approximately 10% of Australians, is struggling due to three key reasons:

- the rising cost of providing advice,
- increasing compliance requirements, and
- the impacts of the COVID pandemic.

For the remaining 80-90% of Australians, new innovative solutions are required to deliver advice. One of these solutions is digital advice, which enables large financial institutions to offer financial advice at scale to their customers.

We have seen the evolution of digital advice in Europe and the United Kingdom, moving away from traditional robo advice solutions to a hybrid model, which combines digital and human generated services. Traditionally, robo solutions limited advice to investments and the allocation of money based on small algorithms. Today's digital advice solutions have evolved to provide advice on insurance, pensions and investments. They also meet the necessary regulatory services aligned to the customer's needs.

In Japan, the financial services industry is also facing unprecedented change. New regulatory requirements and changing customer expectations require institutions to consider evolving business models and customer engagement processes. Customers expect more convenient and easier access to financial services, and they are increasingly looking for a personalised digital

experience. This is where data and AI has the capability to further enhance how advice is delivered.

As the world's third largest economy, and with 93% of the population using the internet, Japan is in a good position to take advantage of technological advances in the financial services sector. Regulatory changes set to take effect in November (2021), mean companies will be able to sell a variety of financial products (banking, insurance, and securities) under a single financial services brokerage license. This may make it easier for consumers to access financial products digitally via smartphones and other mobile devices. In turn, this presents an opportunity for large financial institutions to deepen customer relationships by delivering financial advice through digital channels. This also has great potential to raise financial education levels and bring financial advice to more people who need it.

We hope today's conversation will help lead to great opportunities for institutions in Japan to contemplate how these new financial digital advice solutions by Australian entities such as Ignition can meet the needs of your customers.

Craig Keary

CEO Asia Pacific, Ignition

Craig is a senior global financial services executive with over 30 years' experience. He has worked across Asia and Europe for blue chip international companies, most recently based in Tokyo as Managing Director Asia Pacific for AMP Capital. Craig is an advocate for cross-cultural inclusion and improving wellbeing.



Craig followed Vivien with discussion on how digital advice can improve financial wellbeing. Craig is very passionate about this topic, and is currently undertaking a PhD part time, researching how financial planning and financial advice can improve an individual's wellbeing.

The need for financial advice, or guidance, has really accelerated.

Globally, and very much so in Japan, COVID-19 has significantly impacted our society's mental health and wellbeing, particularly financial wellbeing. If I think about my home country Australia, one in four people are under financial stress as a result of COVID. One in four are also facing other mental health challenges as a result of COVID.

With changing generations, we're also seeing the rise of a new and enlightened society, and new expectations from consumers. Shareholders, boards, and governments are pressuring companies to increase their focus around social responsibility. I'm particularly encouraged by this, because I feel we have reached a turning point in history, where we should all be collaborating to solve these big sustainable goals. And I know sustainability is very, very important to the Japanese. And it's exciting to be talking about this.

Technology can be used for good. We're seeing that COVID has accelerated digital adoption for consumers and for businesses. We're seeing consumers have really shifted to digital across many categories, whether that's shopping or fitness, and the majority intend to continue using digital post COVID.

This means consumers are primed for financial institutions to use technology to do the heavy lifting, allowing financial advisers or branch staff to increase direct support to more clients and customers. In my view, technology and humans can work together to do this.

Craig then moved towards a series of very ambitious goals the United Nations (UN) has set for 2030, regarding sustainable development. He raised the idea that better access to financial advice, or guidance, has significant potential to amplify four of the UN's 17 broader goals, working to end poverty, protect the planet, and improve the prospects of everyone, everywhere.

If I think about ending poverty in all forms, everywhere, there's a strong link between poverty or financial struggles and a lack of financial advice. We know financial advice can help ensure people have healthy lives, and therefore allow us to focus on wellbeing. We also know that more access to financial advice can create a more inclusive society, which in turn creates sustainable economic growth. It also reduces inequality within and among countries.

But how can financial services really help achieve these UN goals?

Firstly, institutions can use technology to provide customers with greater access to financial education through calculators and fun financial health check tools. This helps people budget, save, plan, and gain control of their finances, which will improve their quality of life, and have flow on effects to the wider community.

Digital advice tools and technology can become even more powerful when leveraging AI and open banking by reducing the pressure on overworked humans. Institutions that adopt digital financial advice or guidance technology have the capability to provide financial advice at scale. And this is something that I think is worth pursuing. Because it means we provide advice and guidance to more people, in a more cost-effective way.

We are already seeing several financial institutions in Japan are really focused on this, which is very exciting.

Craig continued with an important message around the support that digital financial advice can provide within the workplace.

There is also a workplace opportunity for digital financial advice. Research from the Organisation for Economic Co-operation and Development (OECD) found that over 50% of employees are stressed about finances. We also know when an employee is under stress, their work performance is directly impacted, which costs productivity loss.

Financial education and guidance is one way to empower employees to feel more in control of their own finances, and digital advice makes this much more accessible. And employers who invest in employee wellness are known to have a strong competitive advantage.

Craig concluded by recapping why it is vital for institutions to begin scaling financial assistance and guidance.

Firstly, institutions with societal purpose are growing faster than those without. We're seeing that continuing to accelerate coming through the pandemic. So in order to remain competitive, institutions must start to think more deeply about, and demonstrate they are acting on, global issues like ending poverty, inequality, and improving financial wellbeing.

Secondly, institutions who invest in employee financial wellness increase the loyalty and productivity of their employees.

Thirdly, institutions who make financial advice more affordable and accessible, will not only improve their own profits, but will also improve the financial wellbeing of the community they serve.

Simon Bussy

Consulting Director, Behaviour Consulting, UK

Simon is the Consulting Director at Behaviour Consulting, a specialist financial services and health consulting business based in the UK. Simon is an authority on the evolving digital ('robo') and hybrid advice sector, and over the past 7 years has led around 150 client engagements at over 40 financial services businesses around the world.



Simon followed Craig, sharing key UK insights about robo advice.

I'm delighted to share key UK insights about robo advice, also known as digital advice here in the UK. And more recently, hybrid advice, where digital capabilities and humans work together in harmony.

This is the area of advice that is generating the most excitement in the UK, and for good reason. As Terry Donahoe, Ignition's Europe CEO says, it is the perfect balance of adviser touch and automation through digital intelligence. It frees advisers to focus on what they do best. It drives greater customer engagement. And it provides firms that provide regulated advice with consistency of output, something all Chief Risk Officers and Compliance heads want to hear.

There is recognition that retail consumers, who previously could not afford to pay for face-to-face advice, can now be supported via a lower cost, more digitally enabled, more efficient service. Importantly, businesses are not restricted to just one of these models. With the right technology approach, they can offer propositions to suit the needs of all customers in a professional, robust

and cost-efficient manner, using just the right mix of human and digital capabilities for each service to deliver exactly what the end customer requires.

To understand why the UK currently views digital and hybrid advice in this way, Simon explained how the journey began in the United States more than 10 years ago, when original 'robo' advisers such as Wealthfront and Betterment began to flourish, often targeting young professionals in Silicon Valley. He also noted it has been a tough journey in the UK, and with many propositions failing, not quite getting the value proposition right or understanding the power of distribution.

While the UK financial services market has long been intermediated, increased regulation over the past decade or more led to many retail, or mass market, consumers being neglected due to their inability to afford traditional (face to face) financial advice. A number of UK FinTech entrepreneurs saw what was happening in the US and identified an opportunity to introduce their 'robo' advice equivalent to the UK, excitedly targeting digitally-savvy millennials.

The term itself is a misnomer as no actual advice was given! The offer was typically investment only and direct to consumer, positioned as a significantly cheaper alternative to human advisers. But without a trusted brand name, distribution or deep marketing pockets - or indeed target customers with any spare money to invest - these propositions did not fare well!

Big brand institutions followed with their own propositions, believing their well-known names, existing customer base, and larger marketing budgets would be sufficient to convert millions of cash savers into investors, particularly if they could offer some form of simple algorithmic advice. But many of these propositions were poorly designed and executed, repeating the same linear product-centric journeys of their FinTech predecessors, this time with even more compliance and jargon

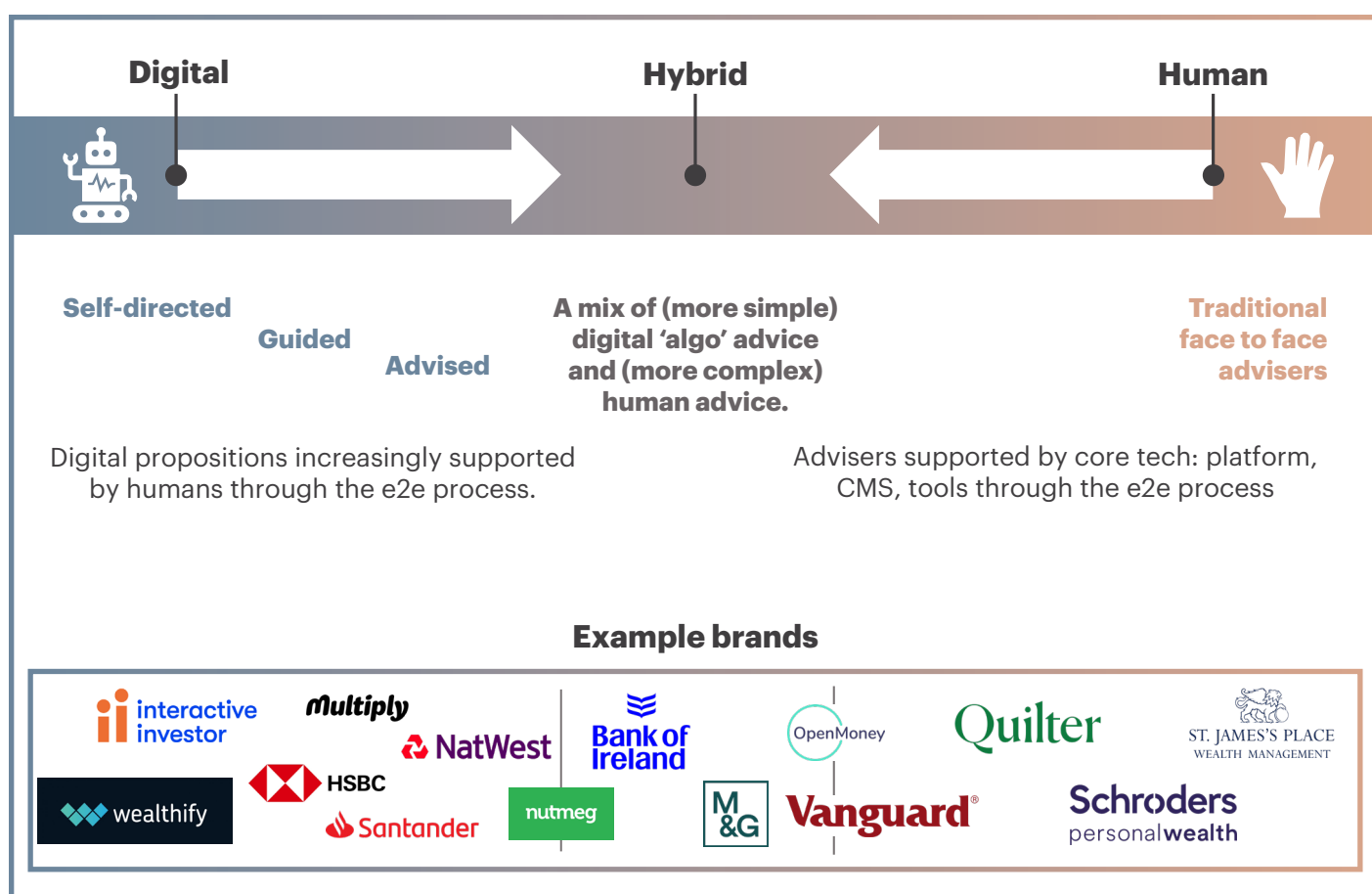
wrapped around them. Not surprisingly, product sales for many did not meet their original expectations.

The market has evolved significantly. We are now witnessing far broader and stronger propositions coming to market from institutions like Chase and JP Morgan, which recently acquired Nutmeg - the most successful of the early UK robo advisers. If the traditional high street banks in the UK want to compete long term, they will have to up their game, and perhaps note, too, how Vanguard has quietly gone about its business, adding more and more capability to their low-cost proposition.

Many financial advisers in the UK have reported significantly increased new business (up 30+% in some cases) as a result of the pandemic. While this is great news in one respect, some advice firms are facing serious fulfilment issues, especially where their systems aren't integrated, don't talk to each other and rely on numerous manual processes.

Not surprisingly traditional face-to-face propositions are increasingly adding digital capabilities to the mix to provide a better, more professional service. And, of course, primarily digital propositions recognise the importance of adding reassuring humans to the equation - different versions of the hybrid proposition we touched on earlier.

The perfect balance of adviser touch and automation



Propositions are no longer millennial focused. In fact, the typical age of customers accessing digital robo- style services today is late 30s and early 40s.

Importantly, some propositions are now focusing solely on a more mature wealthier market, while one new hybrid proposition coming to market later this year (2021) will be aimed at clients approaching retirement.

These new best of breed, more customer-centric, propositions are just what the sector needs to generate more interest, meet the needs of different cohorts of customers, and drive increased scale.

Referring to Craig's earlier comments about COVID-19 providing a catalyst for new digital propositions and operational thinking, Simon noted he was now working with organisations to deliver much improved propositions, underpinned by digital capabilities. These new services will offer their clients more convenience with increased personalisation, and supported by better, more robust controls. He also commented that the links between physical, mental and financial wellness are increasingly understood, and is now impatient to see this knowledge work its way into proposition design and delivery.

A number of clients are now thinking about how they can design propositions to reach new audiences, to add real value to their customers by meeting their needs, ambition and challenges. While many of today's propositions offer good product design, the most enlightened business leaders have come to realise that just having good design does not equal customer engagement. And neither is offering a simple link to a third party well-being service without any real depth or empathy - savvy consumers want and expect, real value and will quickly spot a fake!

An increasing number of organisations we work with now understand that by applying behavioural psychology and behavioural design theory into the design and execution of the solution – the initial research and testing, the products, the services, the overall design of the customer (and adviser) experience and the communications - they can better support their customers' decision-making process, and can move them to take action at the appropriate time.

Some are also considering how they can provide better propositions for underserved customer segments, including women, who research suggests are less confident to invest their money. And where appropriate, also support advisers to better frame conversations for potentially anxious clients to help move them through the process to buy and retain solutions that correctly address their needs.

To conclude his brief look at the UK market, Simon shared the thoughts of Richard Caldicott, Deputy CEO M&G Wealth, who recently led a significant digital transformation at M&G wealth advice.

Richard is a strong advocate of the hybrid model, believing it brings together the best of human capability with the increasing power of technology. He recognises that while some skills and behaviours can *only* be delivered by humans in the right organisational design and team structure, the best customer outcomes will be underpinned by advanced technology. These solutions will be more cost effective, increasingly capable, and can help deliver enhanced customer service in robust, consistent and compliant environments.

In closing, Simon shared his challenge to business leaders who wish to create a sustainable, winning strategy.

- Assess the changing financial services landscape in the context of politics and regulation, the economy, changing social behaviours, and the advancements in technology.
- Understand their impact on your propositions and operations.
- Reduce the complexity and cost of your technology estates.
- Let technology do the heavy lifting, data capture, and digital factfinding, but don't forget the value and importance of your people - your differentiating asset.

In doing so, you will provide an outstanding customer experience. And a company that the best people will want to work for. Quite frankly, nothing less will do.

Professor Toby Walsh

Professor of AI,
University of NSW, Australia

Professor Walsh is a recognised thought leader in Australia's digital revolution and a highly respected global authority. As a Laureate Fellow and Professor of AI, he is a strong advocate for limits on AI, to ensure it is used to improve our lives.



Toby began with a view on where artificial intelligence and similar technologies may take us in the future by sharing a quote from Hal Varian, Google's Chief Economist, "A simple way to forecast the future is to look at what rich people have today; middle-income people will have something equivalent in 10 years, and poor people will have it in an additional decade".

Take driving for example: today, rich people have chauffeurs, and in the not-too-distant future, many of us will have self-driving cars. Looking at our finances, rich people today often have a family office to manage their complex finances. And soon, those with less assets will have automated and digital advisers to help manage their future.

Raising two of the most important issues when providing advice to people, risk and fairness, Toby discussed how digital tools can allow us to better manage these

issues in a more data and evidence driven way. But he also noted that it can raise some ethical challenges.

Today, there are car insurance companies that will ask you to download an app to your smartphone to monitor your driving to identify whether you brake more frequently than other drivers. The data from this app allows the insurer to more accurately price the risk, but also raises a fundamental question around fairness, because insurance was originally designed to spread risk over a group of people, not to identify exactly where that risk is.

Let's look at how this has impacted the market in the European Union (EU), where regulations now enforce any type of insurance (car, life, health) to be priced irrespective of a person's gender – men and women must pay the same prices, despite their actual level of risk. The consequence of this is that women, who generally had cheaper car insurance because they historically have fewer accidents than men, now must pay higher insurance rates. Now, that risk question has turned into one of fairness. Is it fair for us to make women subsidise men's bad driving?

This is a good example of the type of ethical challenges AI can raise. However, there aren't as many completely fresh challenges as some commentators might suggest. Digital is not the first technology that has touched our lives, and we've already had to address many of the issues it raises, including what is fairness when pricing insurance products.

But AI has changed the speed, the scale, the cost, that we can do things. We can now quickly personalise the cost of car insurance, because we can collect real time data about how people drive. So even if it's not a completely new ethical principle we need to resolve, AI does raise the speed at which we need to address it.

Toby then moved to the question of regulation, and how we regulate the digital space to ensure safety, security and transparency.

There's a lot of discussion about how we regulate digital technology to ensure it is used to improve wellbeing rather than increase inequalities that already stress society today. The EU is leading this space, particularly around artificial intelligence. With the introduction of the General Data Protection Regulation (GDPR) Act in 2018, they demonstrated that some regulation not only provides improved outcomes for the consumer, but also improves businesses overall.

In fact, the idea of GDPR is now in being widely adopted across the world. California has a version of GDPR. In Australia, many companies provide similar sorts of GDPR standards in terms of consumers rights, even though there is no official GDPR law.

It is quite interesting to see how these regulations can go viral. Which is why we are very closely watching the draft AI regulation act currently being drafted in Europe.

I know they are very focussed on identifying high risk applications of artificial intelligence that threaten fundamental human rights – uses of facial recognition and other biometrics, and micro targeting of people. I think we will see, and rightly so, regulators around the world, not just in Europe, start to draw red lines around these applications.

To conclude his commentary, Toby raised a very common AI question - can the human brain be hacked? Using the Cambridge Analytica scandal, he illustrated how AI can be used to influence our decision-making processes, and not always in our own best interests.

What surprises me about Cambridge Analytica is that much of the concern focused on the privacy question, where personal data from Facebook users was being collected without appropriate consent.

I think we should be much more concerned about how that personal data was then used to manipulate how people voted, by micro targeting political advertisements.

We certainly saw the presidential election in United States influenced by this, and potentially, the Brexit referendum may also have been swung by such means.

We should be very concerned that our democratic processes are being disrupted. But when people question whether I am optimistic or pessimistic about the future of technology, I am definitely optimistic. While we face some very wicked problems (the climate emergency, increasing inequality, decreasing biodiversity of the planet, and of course, this ongoing pandemic), AI offers an opportunity to help us deal with many of these challenges.

Learning from history, we have seen significant and important societal shifts around major events like global wars, and I suspect a possible silver lining that comes out of this global pandemic may be the ability to think about ways to use AI tools to improve the quality of all our lives, to shorten the working week, or to spread the wealth that these technologies allow us to generate.

Craig closed the webinar, warmly thanking Vivien, Toby, and Simon for their insightful presentations.



Ignition is reimagining financial advice.
We combine the power of digital intelligence with a
human touch to enable smarter, more flexible and more
secure advice delivery for everyone.

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