OPINION

NEW TECH, NEW POWERS

Prescriptive analytics can spot issues, identify trends and predict future outcomes, helping brokers – and regulators – do their jobs better, writes Veriluma CEO **Elizabeth Whitelock**

PRESCRIPTIVE analytics is having a significant impact on the way many industries now operate, and technology research firm Gartner identifies the emerging technology as one of the key areas to watch over the next five to 10 years.

It is increasingly useful for its ability to spot new trends or potential issues based on data, facts and opinions to determine the probable outcome of a future event. It can go even further by suggesting, or prescribing, the best course of action to take in order to achieve the most desirable outcome.

While prescriptive analytics may sound like the stuff of science fiction, it is already demonstrating its usefulness in numerous industries, from defence to legal services. Now, it's even being applied to the mortgage and financial services industries, in which it can operate behind an aggregator's CRM system to reduce broker or adviser bias and error, and suggest suitable mortgage and loan products that have the highest likelihood of approval.

But with all these added benefits for brokers, there are also perks on the other side of the fence for regulators. The technology could be used to improve regulators' oversight, helping identify whether any of Australia's 23,000 brokers have conducted any illegal activity.

Improving trust in advisers

Prescriptive analytics is not intended to replace the experience and expertise of brokers and advisers. Rather, it is designed to work alongside them to reduce the time spent sifting through loan products, as well as the possibility of human error, in order to achieve the best possible outcome for the borrower and help brokers grow their client relationships.

By reducing the incidence of cognitive bias, prescriptive analytics can act as a powerful tool to build trust, giving borrowers the confidence that their broker is truly acting in their best interests.

Cognitive bias is an error in reasoning, evaluating or remembering, which can lead advisers to mistakenly recommend a product based on their preferences and beliefs, regardless of objective information to the contrary.

Even the most experienced and well-intentioned financial advisers can be subject to biases in their decision-making and advice.

A peer-reviewed German study from 2010 revealed that cognitive factors do in fact impact on decision-making within the financial market after it found that stockbrokers were guided more by past experience and existing beliefs than logic and rational thinking.

Brokers often may not realise they are exhibiting cognitive bias, and may recommend a particular product based on the success of previous loan applications with other clients. Prescriptive analytics can identify bias in its early stages before it becomes entrenched in the way a broker operates. By providing additional checks and balances to confirm product recommendations, the technology gives brokers the peace of mind that there won't be any inference of bias, error or wrongdoing.

Elizabeth Whitelock
CEO of Veriluma, a prescriptive analytics software provider

Connecting the dots

In 2015, a law firm was able to use machine learning to identify a link between spikes in the profit and loss statements of three major UK investment banks and a regular poker night attended by the heads of trading of those banks, who were later found to have colluded on trades. This is a great example of technology empowering businesses and regulators, but it was ultimately reactive – the illegal activity had to have happened before it could be tracked down. However, we know collusion is a recognised risk in this industry, so how can companies prevent it, not just detect it once it has occurred?

The beauty of prescriptive analytics is its ability to predict outcomes ahead of time, rather than waiting until after an event has happened to trawl through data and connect the dots. The technology allows regulators and organisations to monitor financial advisers in order to understand what incidences of wrongdoing might look like, enabling them to proactively regulate advisers by connecting seemingly unrelated events to links in behaviours and illegal activity.

> Increased trust in advisers will lead to increased volumes and growth of the bottom line for the industry

Prescriptive analytics tests hypotheses and evidence ahead of illegal activity taking place. The lesson here is that we shouldn't be waiting for data to tell us what's already happened; instead we need to look to the future to predict what will happen next. Prescriptive analytics can be mobilised to analyse a variety of scenarios, from regulators detecting illegal behaviour by traders, to identifying the most likely loan product for approval, to even identifying fraudulent applications from borrowers.

The use of prescriptive analytics is predicted to grow in the financial services sector, and it will serve as a useful tool to improve regulatory oversight and ensure the reputation of advisers and brokers is continually enhanced. Increased trust in advisers will lead to increased volumes and growth of the bottom line for the industry as a whole, resulting in better advice for customers and increased customer confidence. AB

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