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FINANCIAL INSIGHTS

by

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ARE WE HEADING TOWARDS A CASHLESS SOCIETY?

Every year, fewer and fewer transactions worldwide are carried out using cash.

In the UK, the use of cash decreased by around 15% yearly from 2017 to 2019. While in Sweden, the percentage of transactions made with cash is now less than one per cent.

This is essentially thanks to the rise – and convenience – of contactless payments, including via bank cards and through apps such as Apple Pay, Venmo and countless more variations across the world.

Even in Asia – the continent most reliant on cash-based transactions – the growing prevalence of e-wallet providers and QR-enabled payments is accelerating their move towards a more digital economy, with cash use falling from 97% to 71% from 2010 to 2019, as stated in a Mckinsey report.

However, over the last two years, the COVID-19 pandemic has escalated towards a cashless society, with the percentage drop in cash usage doubling in many countries. In the UK, the number of payments made with physical money dropped by 35% in 2020 – more than double the year before.

In addition to the increased surge in online shopping – for which cashless transactions are necessary – many became concerned about COVID-19 transmission via banknotes, with consumers and businesses opting to use digital over physical payment methods.

The number of cash-only businesses soared, increasing by 23% in the USA, 39% in Canada and 50% in the UK, to give just a few examples.

WOULD A CASHLESS SOCIETY BE A GOOD THING?

There are a few notable benefits to a cashless society, aside from being quicker and more convenient to use digital payment methods over rooting around for – and counting – correct change.

For one, with the cash-based infrastructure scrapped, there would no longer be any need to manufacture physical money such as cash and coins. This would be better for the environment and taxpayers, as creating money costs billions per year from taxpayers' earnings. A cashless society could also help reduce tax avoidance due to transactions being more easily traceable and even decreasing certain types of crime, as there wouldn't be any physical money in tills, reducing shop break-ins.

However, there is a significant risk to consider when all capital is on online systems. These are vulnerable to cyber-attacks and common system failures, leaving people with no way to pay for the things they need.

Even more important than this is the fact that – although most people use contactless payment methods to some extent – many still rely on cash to carry out their day-to-day transactions. Some don't have the technology or the capacity to get to grips with contactless payments or online banking. A move to a completely cash-free society could leave these people without the means to purchase necessities.

SO, ARE WE HEADING TOWARDS A CASHLESS SOCIETY?

The trajectory of the cash-use rate has depleted to the extent that, if it were to continue at this velocity for a few more years, it would seem as though cashless societies will invade the globe.

However, this view grossly overlooks groups in society who rely on cash for at least some of their transactions.

Some financially disadvantaged groups, refugees and homeless people, rely totally on cash to make payments, as do many elderly who aren't familiar with modern payment tech. Moreover, cash-based businesses would be left behind or forced to implement technology to allow digital payments.

Additionally, people with cognitive problems that may make it challenging to use tech-enabled payment methods or even remember pins to bank cards can have more financial independence with cash.

What's more, the trajectory of decreased cash use over the two years shouldn't be seen as representative, as the move towards cashless wasn't a choice for many during the pandemic.

People were encouraged online to shop as non-essential businesses around the globe were shut, and many companies began to accept digital-only payments to reduce transmission of the virus via banknotes. Cash will likely be used post-COVID again, though still at a lower rate than before the pandemic.

A cashless society has been predicted for almost 70 years before digital payment methods even existed. While many more alternative payment methods are now available, including alternative currencies only used – such as bitcoin and other cryptocurrencies – we're still a long way off replicating the unique advantages of physical cash with digital systems.

The likelihood is that we're not going to exist in a completely cashless society – at least not anytime soon. More likely, we'll continue to grow into a less-cash society, though the option for people to fall back on cash when they need to will be there for the foreseeable future – they may have access to fewer businesses than they once did.

WHAT IS ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CRITERIA IN INVESTING?

If you're interested in investing, but you want to make sure your money is directed into organizations that share your values – or, at the very least, don't go against them – then you've probably been researching different methods of ethical investment.

The bread and butter of ethical investment standards, through which investors can screen companies they're thinking of investing in, is ESG – Environmental, Social and Governance – investing.

WHAT IS ESG?

ESG refers to a set of criteria comprising environmental, social, and governance standards that a company must uphold to be a candidate for an investor's portfolio.

These standards will differ depending on what's important to the investor. However, they also take into account the impact that certain detrimental practices are likely to have on the value of the investment long-term.

The criteria used to define acceptable environmental company standards could include:

- comprehensive environmental reports, including on carbon emissions, energy usage, waste production and sustainability as a whole
- limits the amount of damage they do to habitats (or have measures in place to negate their impact on natural habitats)
- has measures in place to reduce their energy/non-renewable resource usage
- limit of the volume of harmful pollutants or chemicals used/produced
- use renewable resources where possible
- avoids animal testing/cruelty

The criteria used to define acceptable social standards within a company could include:

- supports the fight against inequality, including gender, LGBTQ+ and race inequality
- has programmes in place to support communities or charitable causes
- has measures in place to prevent sexual harassment and assault
- treats its workers and its customers fairly
- pays its workers fairly

The criteria used to define acceptable governance practices by a company could include:

- carries out regular audits/risk assessments to identify problems, which could include everything from ensuring employee needs are met and making sure the working environment is safe to check for security vulnerabilities
- prioritizes diversity on the board and at all levels of the company hierarchy
- haven't – and don't currently – engage in illegal practices
- provides accurate, transparent accounts

WHY ARE MORE AND MORE INVESTORS CONSIDERING ESG WHEN MAKING INVESTMENTS?

More and more, investors are taking into account ethical concerns, and looking at Environmental, Social and Governance standards, which comprise criteria covering a diverse range of the top considerations when investing.

This is particularly true in the case of younger generations such as millennials, who prefer to invest in line with their values as an individual, ensuring that their money isn't contributing to problems they want to see eradicated.

Moreover, more than just the younger generations are concerned about companies' environmental, Social and Governance practices, as the whole world takes more notice and holds companies accountable.

This is particularly true in the case of environmental concerns. As the climate crisis grows ever direr, the need for renewable energy increases, and we become more aware of humanity's profoundly negative influence on the planet.

As a result of these factors, sustainable practices have become one of the most attractive consumers, improving the odds of success of sustainably-minded businesses in the future.

Simultaneously, the fight for gender and race equality, in addition to LGBTQ+ rights and stamping out practices such as workplace harassment, has reached new heights in the last decade. Similarly, companies that don't support these causes with their methods or policies are future scrutiny targets.

In the past, if investors wanted to make ethical investments, then there would often be a trade-off, where investors achieved lower returns in return for appeasing their conscience. Unethical practices or a disregard of the environment could further a company's success, making for more lucrative investments – particularly in fossil fuel and non-renewable energy companies.

However, as the sociopolitical attitude towards these issues has changed and society has become a more socially and environmentally responsible body, it's thought that screening investments according to ESG standards could improve the success of an investment portfolio over time.

One notable example that could spell the future of non-ESG investments in the fall of stock prices after the BP oil spill in 2010 on the Gulf Coast of Mexico, which polluted the water and killed much of the local marine life.

As a result, the realm of ESG investing has grown astronomically over the past decade, with assets worth more than $17 trillion being chosen due to their being in line with ESG criteria, representing an increase of $5 trillion in just two years.

So, suppose you want to make more socially and environmentally conscious investment decisions. In that case, there are countless investments you can make inline with ESG guidelines, as investment firms have caught onto their popularity and created numerous funds and ETFs, in addition to myriad stocks, in line with investors' values.

ONE OF US

In 'One of Us' we share intimate conversations with colleagues, thought leaders, and financial experts to educate, enlighten, and entertain you.

This month we caught up with our Chief Investment Officer - Stewart Dando.

Q: Thank you so much, Stewart, for taking the time to do this interview. Can we start by letting our audience know a bit about yourself and your background?

A: Of course. And thank you for the opportunity. I began working in the investment arena in November 2007. I remember it well, as the company I was working for at the time (Discovery) had just launched their investment business – Discovery Invest. As soon as I encountered risk, return, volatility and yield curves for the first time, I was smitten. Before that, I had worked in various spheres of the financial services industry, doing a lot of training and managing teams of financial advisors. I studied marketing straight out of school but furthered my studies in equities, bonds and derivatives, becoming a full member of the South African Institute of Financial Markets once I discovered my passion for investments. Prior to joining AMA full time, I was the Head of Wealth Management for a large financial service firm in SA, which employed around 275 financial planners.

In my spare time, I enjoy playing 'Roblox' with my eight-year-old son Cole, playing golf (with wildly varying degrees of 'success'), curling up on the couch with my wife Debbie and enjoying a decent series on Netflix (I highly recommend Billions, You and Ozark).

Q: We know that you hold multiple roles in both AMA South Africa and Mauritius offices. Can you tell us a bit more about your roles?

A: I am the joint Key Individual for AMA Africa. This role essentially represents a 'link' between the Financial Sector Conduct Authority (FSCA – Regulator of financial services providers in South Africa) and AMAA. Myself, and the other Key Individual (Mr Westley Van Rooijen), are responsible for maintaining our FAIS (Financial Advisory and Intermediary Services) license and monitoring all business written under it. Essentially, we are where the proverbial 'buck' stops. Westley and I can be held personally liable should our advisors commit any transgressions under the law. My team has even conferred the moniker 'Mr Compliance' on me.

I am also the Chief Investment Officer for AMA International and the Chairperson of our international Investment Committee. This role primarily focuses on investment analysis and research. We place enormous emphasis on the research and analytics that goes into our fund selections and portfolio constructions. Our clients enjoy peace of mind, knowing that the ultimate portfolio we recommend is a distillation of a plethora of potential investment fund opportunities. We execute this function in partnership with Morningstar, our independent global investment research house.

Q: We know that you're passionate about investments, sometimes to the point of obsession. What triggered this passion?

A: Only sometimes??? (Chuckles). I believe it has something to do with the complexity of the topic, mingled in with the numbers, and the fact that if you get it 'right', your clients increase their chances of reaching their investment goals and objectives. I think it's a critical endeavour for any investment advisor to expend as much cognitive bandwidth as possible on research and analysis when constructing investment portfolios. Seeing portfolios (that I have played a role in building) performing as they're designed to and having satisfied, happy clients is an immense joy. They say that if you love what you do, you'll never have to 'work'. This adage acutely applies to me. I am truly blessed to be in a profession that I a) love and b) has the potential to be such a powerful 'force for good' in the lives of my investors.

Q: Can you share some examples of your obsession with investments with us?

A: I love working with numbers. I adore graphs, pie charts and scatter plots. I enjoy crunching a great deal of data in the pursuit of portfolio construction that specifically matches my client's appetite for risk and their expectation of return. I'm a serial CNBC and Bloomberg consumer and even write a weekly newsletter ('The Squawk') which covers investments, finance and even some politics.

Q: We hear you're a great social speaker. Would you mind giving a few tips to those of us that find public speaking a bit daunting?

A: The word 'great' is very generous and kind, thank you... I've always enjoyed communicating with people, delivering a message, and distilling an often-complex set of variables into a simple, concise, easy-to-understand message. Investments can be complicated, and for a client who has no knowledge and/or experience, successfully articulating a concept for them (or set thereof) can be difficult.
My advice, first and foremost, would be that you have to know your topic inside out. If you're an expert, you free up some mental capacity to focus on delivery, eye contact and the strategic use of pauses, questions and emphasis. In addition, having a decent vocabulary allows you to express yourself precisely and adequately. To simplify a concept, you must first understand the complex version of that concept. I tell my Consultants that they must always be three things: Deliberate, Specific and Precise when they communicate.

Sidebar: In his book '12 Rules for life', Professor Jordan Peterson says that you should always endeavour to 'be precise in your speech' (It's Rule 10, I believe). I'm a huge proponent of this. Also, I cannot recommend this book highly enough.

Q: If you can choose only one country to live in forever with the exception of travel. Which country would you choose and why?

A: Um, that's an excellent question. I've been quite fortunate in my life to have travelled rather extensively. From China, Botswana and the US, to Mauritius, the Czech Republic (where I proposed to my beautiful wife), and the United Kingdom (where I was born), I am blessed to have experienced much of our magnificent planet. With that said, though, if I had to choose, I would probably choose South Africa. Her potential remains immense and largely untapped with all of her problems and challenges. If we (The government, the private sector and the general public) could get a few things right (and stop doing certain wrong things…), this country would flourish. I think the road ahead is scary and uncertain, but the future holds enormous promise.

My second choice would be the idyllic island of Mauritius. With her burgeoning financial services sector, her growing economy and stable political environment, and her ridiculously beautiful beaches, this exquisite place is definitely on my radar.

Q: What would you say are the main cultural differences between South Africa and Mauritius?

A: That's an interesting question. I've only been to the island once, so my opinions are still very much in their nascency. As a popular tourist destination, the locals are very welcoming and friendly. Generally speaking, government services appear to work well, infrastructure is well maintained, and the tax rates are very seductive (in comparison to SA). I'm going back in March this year with my family. Perhaps I'll have a more insightful answer to your question then.

WHY YOU SHOULD CONSIDER INVESTING IN RENEWABLE ENERGY

Energy and power are some of the most common sectors to make their way into investors' portfolios. Over the coming years, the value of one particular energy niche is set to skyrocket, with renewable energy showing the most significant promise for long-term growth and reaping the rewards for investors who take advantage of this.

Right now, as a result of the rising energy demand – which is predicted to almost double by 2050 – in combination with the fact the world is searching for green solutions to the world's climate crisis, renewable energy could be the most lucrative investment you'll make this year.

RENEWABLE ENERGY IS BEING INVESTED IN.

The renewable energy sector is receiving a lot of new investment, with over 5 trillion dollars directed towards building new power plants between 2020 and 2030.

Europe alone is set to spend around $967 billion on greener energy options by 2030, while about 65% of the global $7.7 trillion power investment will generate electricity from renewable sources.

RENEWABLE ENERGY IS BECOMING CHEAPER.

One of the key drawbacks of renewable energy, in the past, has been the cost.

However, due to developments in renewable energy technologies, construction costs are lower, and the energy has become cheaper to produce, while the quality of these technologies has also improved.

Wind turbines, for example, are less expensive to build than a new combined cycle gas turbine. Moreover, in mainly sunny places, solar power via rooftop solar arrays will make a more affordable option – such projects are already being carried out in India and Latin America.

FOSSIL FUELS ARE BECOMING A LESS ATTRACTIVE ENERGY OPTION.

Recently, the unreliability of fossil fuels – as shown by the ongoing fuel shortages worldwide – has come to our attention, making them a less attractive investment than they once were.

In addition to the increasing costs of non-renewable energy sources such as gas, fossil fuels aren't a renewable energy source, meaning that they will run out at some point.

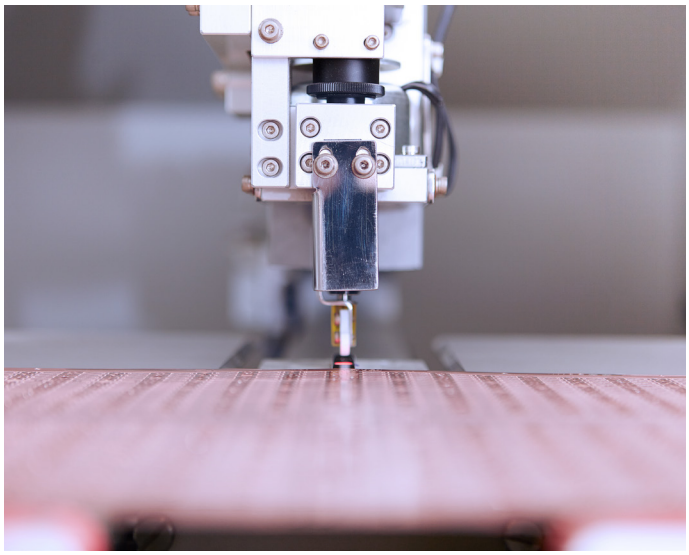
This means that we will be relying more and more on renewable energy as time goes on, and – thanks to developments in renewable energy storage – they are becoming a much more reliable energy source.

TECHNOLOGICAL ADVANCEMENTS HAVE SOLVED PRIOR LIMITATIONS.

In addition to the comparably more expensive cost of renewable energy in years gone by, there were other notable limitations with the energy source.

Most prominent of these was the inability to store renewable energy once it had been made, meaning that power was only available when the sun was shining, in the case of solar panels, or when it was windy, in the case of wind turbines.

However, batteries have been developed that can solve this problem and store renewable energy, overcoming one of the most significant hurdles in this industry and increasing the value of the sector, as the capacity for renewable energy soars.



THE STATS SAY IT ALL.

The Bloomberg New Energy Finance report stated that the 2017 market value for renewable energy was around 928 billion dollars, while it's predicted to grow by an average of about 6% each year, to approximately 1.5 trillion dollars by 2025.

More than this, renewable energy is predicted to account for over 60% of new energy generation by 2030 and will be allocated 65% of the world's investment in power.

What's more – aside from the dip the energy sector took during COVID-19 lockdowns – the value of renewable energy stocks and funds have been growing steadily over the last years, though we're likely to see even more growth to come.

STOCKS AND FUNDS TO KEEP YOUR EYE ON.

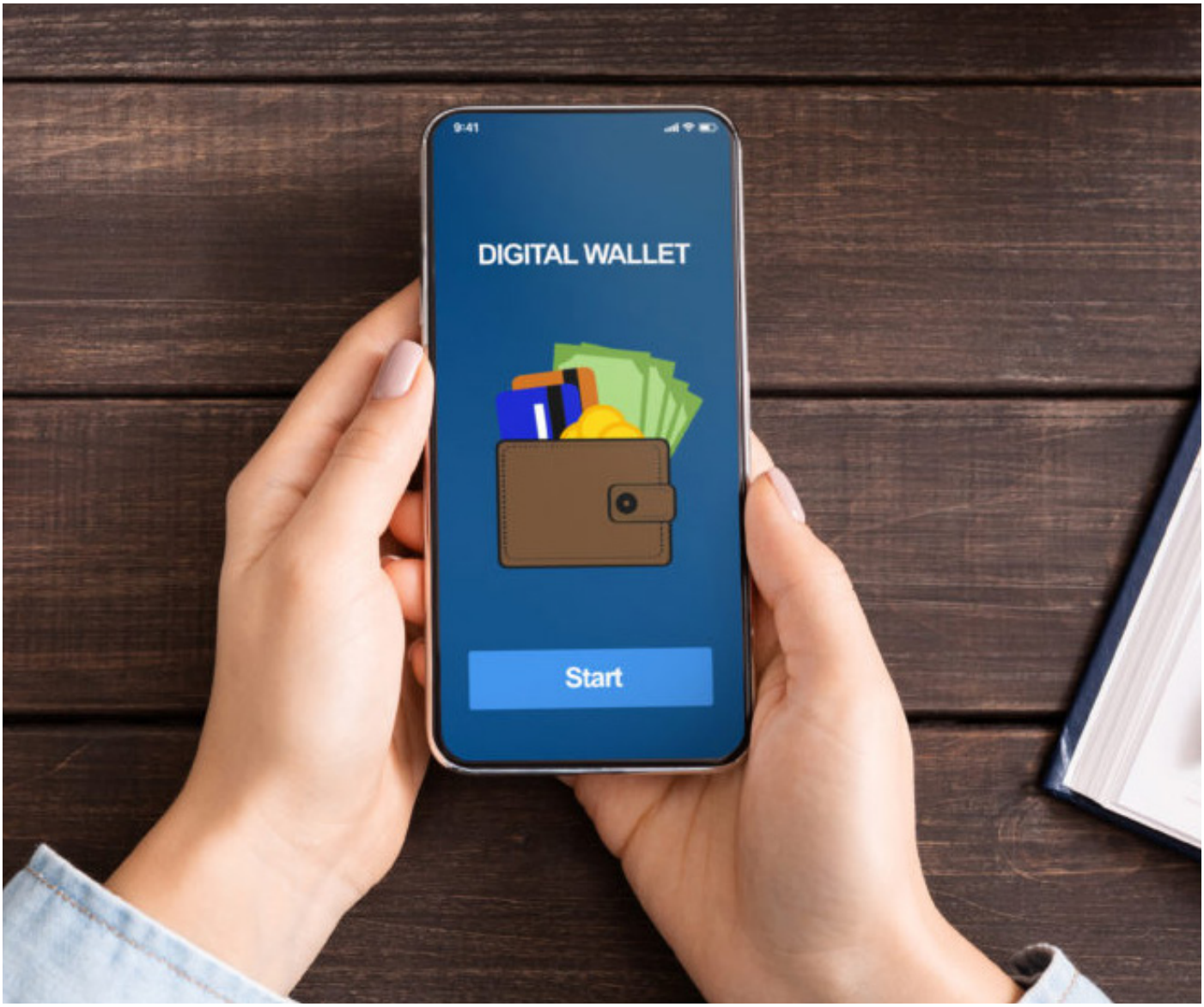
A couple of renewable energy stocks and ETFs will allow you to take advantage of this rapidly growing industry.

One of the ETFs is the Invesco WilderHill Clean Energy ETF, which tracks around 40 'green' energy companies. Similarly, the iShares Global Clean Energy ETF tracks many renewable energy firms across the world.

For options specific to each type of renewable energy, there's the First Trust ISE Global Wind Energy ETF, the Guggenheim Solar ETF and several stocks heavily involved with hydroelectric power – the most significant player in renewable energy game – including General Electric Co. and Siemens.

So, suppose you want to gain reward from one of the fastest-growing, heavily invested industries. In that case, you might consider investing in renewable energy to benefit financially and benefit the planet.

DIGITAL LOCKERS/WALLETS AND THE FUTURE OF DIGITAL IDENTITY



A digital identity is an online identity that represents and corresponds to a specific individual, organisation or device.

One party may have several different digital identities, which each correspond to their relationship with a particular organisation and can be used by this organisation to identify them.

Elements known as digital identifiers – such as an email address or domain name – can be used by an organisation to identify a specific digital identity and verify it's them with private information such as an ID card or a password.

On the other hand, the term digital identity is sometimes used to refer to the accumulation of information about a particular entity online, including all their usernames and passwords, online purchasing history, social security and more.

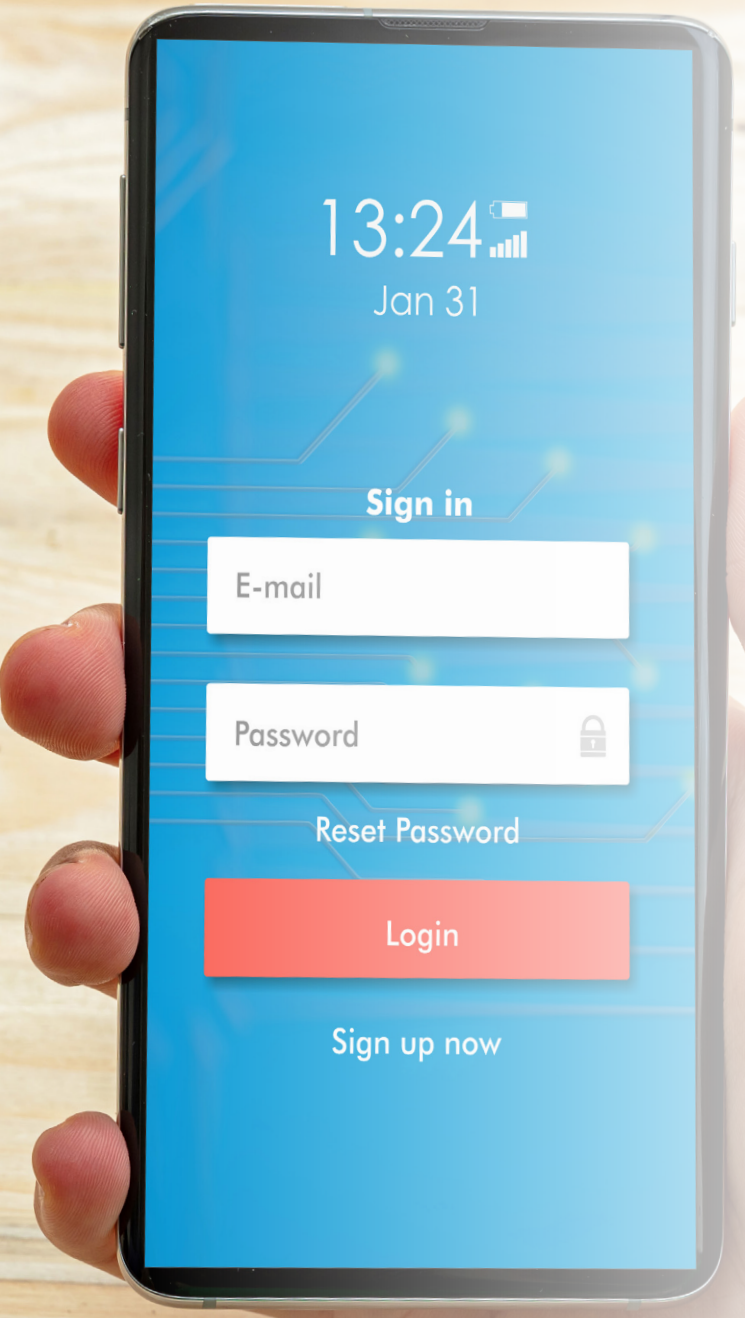
WHAT IS A DIGITAL IDENTITY USED FOR?

An entity's digital identity is used to verify that an entity – an individual, an organisation or a device – is what they claim, without human intervention being necessary to ensure an entity is who they say they are.

Information within a party's digital identity allows for a party to be authenticated by a computer – the process by which the computer confirms an entity is who they claim, based on confidential information (such as a user name and password) that corresponds to that identity.

When an entity submits this information correctly, its digital identity is authenticated. They are authorised to access a private online realm of an organisation only allowed to be accessed by that specific entity, such as that entity's online banking portal.

However, the realm of digital identity is undergoing a rapid transformation, influencing how authentication and authorisation are achieved between entities online, with both public and private institutions.



HOW IS THE CONCEPT OF DIGITAL IDENTITY CHANGING?

We typically have numerous digital identities, or at least innumerable facets of our digital identity, which mean we have different passwords, usernames and more to interact with various organisations – both public and private – online.

However, countries around the world are instating initiatives so that, in the future, one digital identity may be able to uniquely identify and authenticate a particular entity both on and offline.

Numerous national ID schemes worldwide are propelling the digital identity trend-forward, including features such as unique ID numbers, names, DOB and more.

In deference to the COVID-19 pandemic – which has propagated the movement of digital transformation globally, propelling the technological world forward by 5-10 years – vaccination codes also feature in many national ID schemes.

In some countries such as the UK, digital proof of COVID-19 vaccination is required to enter some events and establishments.

eID initiatives are being launched all over the world, such as GOV.UK Verify in the United Kingdom: a service that allows citizens to prove their identity online. As a result, they can securely access government services such as tax filing or checking driving license info, supplanting the standard process of receiving this information via the post or through a people-led authentication process.

Likewise, in Germany, citizens can keep a digital version of their national ID on their smartphones, which can be used as an ID in the place of a physical ID card. Likewise, throughout Europe and Asia, countries are launching digital driver ID initiatives.

THE DIGITAL WALLET/LOCKER

As one of the more comprehensive digital ID initiatives, India's national eID scheme – Aadhaar – has one billion users and is facilitated on an app that contains citizens' information, including their biometrics and demographics.

An accompanying app – DigiLocker, or the digital locker, created by the Ministry of Electronics and IT – functions as a digital document wallet and links to citizens' Aadhar numbers. The locker can store a citizen's driving license, PAN card, voter ID, policy documents and more.

In the summer of 2021, the European Commission suggested creating a digital ID for EU residents so that the vast majority of Europe's population would have access to all their ID credentials, including a digital representation of their driver's license, healthcare info, other ID cards and more – in one secure place by 2030.

And the rest of the world is following suit.

These wallets will function so that if an online organisation needs to authenticate an entity, individuals can present the appropriate feature – and nothing else – required from their wallet to verify who they are.

These authenticities will be assured as these documents are connected to and verified by the issuer during an organisation's authentication process.

These documents – predicted to be stored in so-called digital wallets/lockers, powered by a secure mobile app – will allow citizens to prove their identity online and in person, to bodies such as law enforcement and healthcare institutions, and even when voting.

GROW FINANCIALLY WITH AMA

At Austen Morris Associates, we know how the right financial decisions can make all the difference to your long-term security, quality of life and the realisation of your dreams. We also understand the importance of working closely with you over the long-term to understand your unique needs and help to meet any challenges along the way.

Since 1994, we have been committed to the core values of trust, professionalism and partnership to the benefit of our International Clients around the world, resulting in the successful long-term relationships that are the foundation of Austen Morris Associates today. As Independent Financial Advisors, we provide unbiased advice and give you access to the world's top investment management groups.

Our Consultants offer a wealth of experience in providing a full spectrum of financial advice. Our commitment to ensuring your peace of mind reinforces our focus on trust and partnership. By focusing on your specific needs and situation, we tailor plans to reach your financial goals while maximising the benefits of international investing.

Austen Morris Associates is a truly international company with its global registered office in Seychelles and wholly-owned registered offices in China, South Africa, Hong Kong, Mauritius, the USA and the Philippines. To begin your journey towards total financial security, we invite you to meet with one of our Consultants to understand our financial planning approach and why our clients become loyal and long-term partners.

Get in touch with us today for a free no-obligation consultation.
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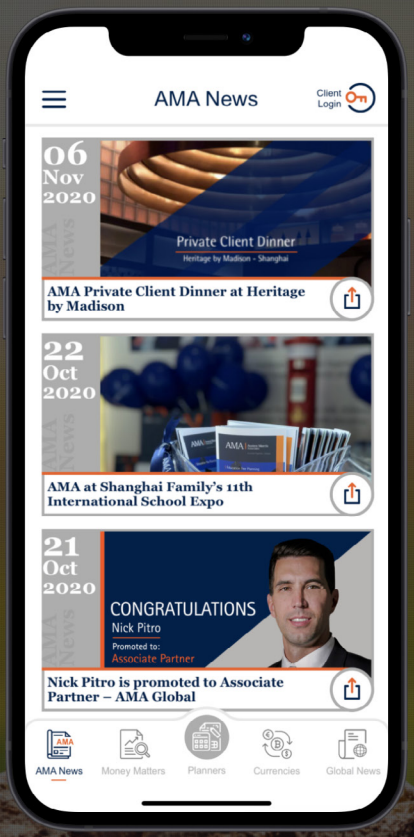

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