SEPTEMBER 2022

FINANCIAL INSIGHTS

by

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FINANCIAL NEWS DIGEST - SEPTEMBER 2022

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AT THE BEGINNING OF SEPTEMBER

Stocks rally as inflation in China eases

Global equities rose (2-9 September) as a surprise slowdown in inflation in China boosted investor sentiment.

China's Shanghai Composite rallied 2.4% as both consumer and factory gate inflation eased in August, raising hopes of further policy support.

US indices ended their three-week losing streak after a report by the Federal Reserve showed price increases were moderating in nine of its 12 districts, led by lower fuel prices and cooling overall demand. The S&P 500 ended its four-day trading week up 3.7%, the Dow gained 2.7% and the Nasdaq advanced 4.1%.

The FTSE 100 and the Dax added 1.0% and 0.3%, respectively, as the UK and Germany announced measures to help households and businesses with soaring energy costs.

Truss confirmed as new UK prime minister

The FTSE 100 finished up 0.1% on Monday (5 September) as oil and gas prices rose following Russia's decision to suspend gas flows to Europe. The day also saw Liz Truss win the Conservative party leadership contest to become the next UK prime minister. Truss promised to cut taxes and grow the economy.

The worsening energy crisis saw stocks in Europe close in the red on Monday, with the STOXX 600 and Germany's Dax down 0.6% and 2.2%, respectively. Data from S&P Global showed eurozone business activity contracted again in August, with the composite purchasing managers' index (PMI) falling to 48.9 from 49.9 in July. The services PMI declined to 49.8, below the 50.0 mark that separates growth from contraction. US indices were closed on Monday for Labor Day.

The FTSE 100 rose at the start of trading on Tuesday on news Truss is expected to unveil an emergency package to tackle the cost-of-living crisis.

Pound slumps against the dollar

The first week of September saw further falls in the pound's value as concerns about slowing UK economic growth and rising inflation gathered pace. In August, the pound suffered its biggest monthly fall against the US dollar since the aftermath of the Brexit vote in 2016, tumbling by 4.6%.

US jobs market still strong

Over in the US, the Bureau of Labor Statistics' closely watched nonfarm payrolls report showed the economy added 315,000 jobs in August. While this was far lower than the 526,000 positions added in July, the data was seen as solid in light of fears about slowing economic growth.

The unemployment rate edged up to 3.7% from 3.5% in July. This was largely because of a gain in the labour force participation rate – in other words, there was an increase in the number of people looking for jobs as opposed to a rise in the number of existing workers losing their jobs.

Eurozone inflation hits 9.1%

In the eurozone, inflation rose to a record 9.1% in the 12 months to August, according to Eurostat's flash estimate. This was higher than the 8.9% annual inflation recorded in July and the 9% figure expected by economists in a Reuters poll. Energy prices were up by 38.3% from a year ago, while food, alcohol and tobacco rose by 10.6%.

There are growing expectations that the European Central Bank (ECB) will increase interest rates by 0.75 percentage points for the first time in its history on Thursday. According to the Financial Times, Germany's central bank president Joachim Nagel said high inflation was becoming an enormous burden for people, adding: "We need a strong interest rate hike in September. And further interest rate hikes can be expected in the coming months." However, ECB chief economist Philip Lane said at an event in Barcelona that interest rates should be increased at a "steady pace" to avoid adverse effects.

Covid outbreaks are in 41 Chinese cities

China reimposed curbs in major cities such as Guangzhou and Shenzhen last week in an effort to tackle flare-ups of Covid-19. Capital Economics estimated that 41 cities, responsible for 32% of China's gross domestic product, are currently in the midst of outbreaks – the highest number since April.

The lockdowns came as data showed China's zero-Covid strategy continues to hold back the economy. The official manufacturing PMI came in at 49.4 in August, up from July's 49.0 but still in contraction territory. The non-manufacturing PMI declined to 52.8 from 53.8 in July.

AROUND THE MIDDLE OF SEPTEMBER

Stocks tumble on inflation and growth fears

Most major stock markets fell (9-16 September) as US inflation proved to be higher than expected and UK retail sales slumped.

In the US, the S&P 500 slid 4.8%, its largest weekly drop since mid-June, following news that consumer prices rose by 8.3% in the 12 months to August. The Nasdaq plunged 5.5% and the Dow lost 4.1%.

The UK's FTSE 100 declined 1.6% as retail sales volumes in August fell by more than anticipated and fears of an imminent recession grew. Germany's Dax tumbled 2.7% as business confidence slumped to its lowest level since October 2008.

The negative investor sentiment spread to Asia, where Japan's Nikkei 225 dropped 2.3% despite exports rising by 22.1% year-on-year in August, up from 19.0% in July. China's Shanghai Composite slumped 4.2% as the yuan slid against the dollar and new housing starts in August tumbled by 46% year-on-year.

UK economy grows by 0.2% in July

UK and European stocks rose on Monday (12 September) as a positive analyst note boosted retailers and higher metals prices lifted miners. The gains came despite the ifo Institute cutting its forecast for Germany's economic output in 2023 from 3.7% to -0.3% and weaker-than-expected UK gross domestic product (GDP) figures. According to the Office for National Statistics (ONS), UK GDP grew by 0.2% in July – better than the 0.6% drop in June, when an additional bank holiday led to a decline in activity, but below the 0.4% growth forecast by economists.

China's inflation slows more than expected

Figures released by China's National Bureau of Statistics last week showed the impact that Covid-19 containment measures and property market weakness are having on domestic demand in China. Consumer prices rose by just 2.5% year-on-year in August, down from 2.7% in July and below the 2.8% rise forecast by analysts in a Reuters poll. The producer price index eased from 4.2% to 2.3%, the slowest pace since February 2021, due to falling energy and raw materials prices.

The data helped to spark a stock market rally at the end of last week as commentators suggested there could be room for further monetary policy easing. It comes after the People's Bank of China announced a cut in the foreign exchange requirement ratio for banks from 8% to 6%, a measure that aims to halt the decline in the yuan.

ECB hikes rates by 0.75 percentage points

The European Central Bank (ECB) increased its key interest rates by a record 0.75 percentage points last week in an attempt to rein in inflation. The deposit rate is now 0.75% and the refinancing rate is 1.25%, the highest levels since 2011.

The ECB said the move would "ensure the timely return of inflation to the ECB's 2% medium-term target". It added that it expects further rate hikes over the next several meetings "to dampen demand and guard against the risk of a persistent upward shift in inflation expectations".

Mixed data on US services sector

Last week saw two divergent sets of data on the US services sector. The Institute of Supply Management's (ISM) gauge rose to 56.9 in August, the fastest pace of expansion since April, whereas S&P Global's indicator declined to 43.7, the biggest contraction since early 2020. (The 50.0 mark separates growth from contraction.)

In an explanatory note, S&P Global said the most striking difference between the surveys is sector coverage. S&P Global includes data provided by companies operating in the US services economy, whereas ISM covers any activity other than manufacturing and so includes things like construction and utilities. The ISM data also tends to be more biased towards larger companies.

Sweden hikes rates by a full percentage point

The FTSE 100, which was closed on Monday to mark Queen Elizabeth II's funeral, slipped 0.6% on Tuesday (20 September) and the STOXX 600 declined 1.1% after Sweden's central bank announced its biggest interest rate hike in nearly three decades. The Riksbank surprised investors with a 100-basis-point increase, taking the headline rate up to 1.75%.

The rate hike has heightened expectations of large interest rate increases by the US Federal Reserve and the Bank of England this week. The S&P 500, Dow and Nasdaq all lost around one percentage point on Tuesday ahead of the Fed's two-day policy meeting on Wednesday.

TOWARDS THE END OF SEPTEMBER

Stocks slide as central banks hike rates

Stock markets suffered another bout of steep losses (16-23 September) as a series of interest rate hikes intensified fears of a global recession.

The UK's FTSE 100 lost 3.0% as the Bank of England (BoE) lifted interest rates by 0.5 percentage points and chancellor Kwasi Kwarteng's raft of tax cuts raised concerns of more aggressive rate hikes in the near future. The pan-European STOXX 600 slid 4.4% following interest rate increases by central banks in Sweden, Switzerland and Norway.

US indices recorded a second week of losses after the Federal Reserve indicated that short-term interest rates are likely to continue increasing sharply over the next few months. The S&P 500 fell 4.7%, the Dow lost 4.0% and the Nasdaq tumbled 5.1%.

Fears of a slowdown in global economic growth weighed on stock markets in Asia, with the Nikkei and Shanghai Composite losing 1.5% and 1.2%, respectively.

US inflation figures spark Wall Street sell-off

The release of the latest US consumer price index (CPI) last Tuesday triggered a sharp sell-off on Wall Street. Annual and monthly price rises were both higher than forecast, weighing on hopes that the Federal Reserve will be able to rein in inflation without sparking a recession.

According to the Bureau of Labor Statistics, headline CPI measured 8.3% year-on-year in August, a slight easing from 8.5% in July but above forecasts of 8.1%. Increases in shelter, food and medical care were the largest contributors to inflation. Food prices were up 10.9% year-on-year and 0.8% month-on-month.

Economic sentiment in Germany slumps

Over in Germany, economic sentiment declined by more than expected in September amid concerns about the country's energy supply. ZEW's economic sentiment index, which surveys 167 analysts, dropped to -61.9 points from -55.3 points in August. It comes after an economy ministry report warned Germany's economy could stagnate or contract in the second half of the year.

Pound hits record low against the dollar

The pound hit a record low of $1.033 early on Monday (26 September) as investors reacted to Kwarteng's 'growth plan' for the UK economy. The so-called mini-budget included a much bigger package of tax cuts than had been expected and raised concerns about a surge in government borrowing.

The Treasury announced that a fiscal plan would be published on 23 November, setting out details of the government's fiscal rules "including ensuring that debt falls as a share of [gross domestic product] in the medium term".

UK interest rate reaches 2.25%

The mini-budget came the day after the Bank of England lifted interest rates by 0.5 percentage points for the second month running. The base rate now stands at 2.25%, its highest level since 2008.

The BoE's monetary policy committee (MPC) noted that while annual inflation fell slightly from 10.1% in July to 9.9% in August, it is still expected to near 11% when energy bills rise in October and remain above 10% over the following few months.

The MPC forecast a 0.1% decline in UK gross domestic product (GDP) in the third quarter, as opposed to its previous forecast of 0.4% growth. GDP already declined by 0.1% in the second quarter and another drop in Q3 would mean the UK is in a technical recession.

Fed announces another 0.75% rate hike

Over in the US, the Federal Reserve announced its third-consecutive 0.75 percentage point interest rate hike in its quest to tame inflation. The federal funds rate is now in the 3.0-3.25% range, the highest since early 2008.

Fed chairman Jerome Powell said the central bank was "strongly resolved" to bring inflation down to 2% and "will keep at it until the job is done". In comments reported by CNBC, Powell admitted that interest rate hikes could spark a recession. "No-one knows whether this process will lead to a recession or, if so, how significant that recession will be," he said.

Fed officials expect US GDP growth to slow to 0.2% for 2022, down sharply from June's expectation for 1.7% growth.

Eurozone economic downturn deepens

The eurozone's economic downturn deepened in September, according to S&P Global's flash purchasing managers' index (PMI). The composite output index fell from 48.9 in August to 48.2 in September and has now registered below the neutral 50.0 level for three successive months.

Manufacturing led the downturn, with factory output falling for a fourth straight month. Service sector output also fell, down for a second consecutive month. The service sector decline was the sharpest since 2013 excluding the falls seen as a result of pandemic containment measures.

REGULATION FOR FINTECH FIRMS IS INTENSIFYING

The FinTech industry has grown exponentially over the last decade, with the rise of non-traditional banks – otherwise known as neobanks – and many other FinTech companies offering products like digital wallets, mobile investment services and more.

During the rapid digital transformation of the financial sector, governments have encouraged the FinTech boom, so much so that the implementation of proper regulation to protect customers, businesses, and the FinTech firms themselves has not always been a priority.

WHY IS THE REGULATION OF FINTECH COMPANIES NECESSARY?

The lax attitude towards financial tech is changing due to increasing concern about cybersecurity, data privacy, consumer protection, and other factors. Not to mention the need to put anti-criminal – and especially anti-money laundering – practices in place.

Especially since there have been hundreds of FinTech unicorns – and some of these firms are competing with long-established financial entities like traditional banks – they become a greater target for cyberattacks and are associated with greater risks financially for their customers.

Additionally, more and more traditional financial entities are aligning themselves with FinTech services, making them susceptible to vulnerabilities if sufficient regulation isn't exercised.

WHAT REGULATIONS HAVE BEEN DEVELOPED FOR FINTECH?

Regulation for FinTech companies is, albeit slowly, being implemented across the world.

The demand for transparency surrounding operations and governance is increasing. Data gathering about these FinTech firms is being taken more seriously, and the sale of some financial products by FinTech companies is being limited, to name a few of how regulation is beginning to catch up with the fast-growing FinTech industry.

What's more, in addition to ensuring data protection and protection against cyberattacks, data privacy – and data ownership – has become a big concern in FinTech and is being tackled by regulatory implementations accordingly.

For example, the regulatory entity ICO found numerous businesses in the UK offering credit reporting services that had sold their customers' data to marketing companies without their permission.

In response to regulatory bodies and governments becoming aware of how valuable data is in our economy and how much it was being traded without the knowledge of those it pertained to, it implemented important legislation in 2018 to tackle this.

For example, the EU's GDPR (General Data Protection Regulation) and the ePrivacy regulation considerably impact the way FinTech companies can share customer information.

Moreover, legislation such as Mexico's FinTech Law and the Payment Services Directive – implemented to improve the security of payments – seeks to seal other vulnerabilities that FinTech products and services pose.

In the past, loan and investment-centred FinTech companies' regulations focused on disclaiming clear information to customers about the risks. Whereas more and more stringent regulations are providing more protection for customers belonging to these FinTech firms.

In particular, ensuring that capital is put aside to protect users – and make sure that operations are governed and standardised to ensure a fair customer experience, including making complaints and handling an essential department within the firm – is becoming vital for companies in FinTech.

More than regulations and governance rules for FinTech firms themselves, there is increasing pressure on businesses aligned with – or using – FinTech to prove their awareness of the risks and show evidence they're taking action to ward against these increased risks.

As regulators put more rules in place for FinTech – and businesses using these firms' services – they consider the interconnectivity of FinTech with other entities. More than this, they're putting measures in place to ensure that those in positions of power in business (such as high-level management) are in a position to understand and safeguard against FinTech-associated risks.

WHAT DOES THE FUTURE LOOK LIKE FOR THE REGULATION OF FINTECH?

As we advance, FinTech companies will need to comply with a list of growing regulations and anticipate those likely to be implemented in the future.

One such area suspected to undergo greater regulation relates to FInTech companies' financial stability, calling for more liquidity, risk management and more significant insurance on consumer capital/deposits in the case of decentralised finance entities.

While regulation for FinTech companies is certainly ramping up, the regulation imposed upon these firms is unlikely to be globally agreed upon under one set of laws. It will instead rely on national-level – or even state-level, as in the US – implementation of legislation and guidelines.

Although, across the board, thorough reporting and in-depth analysis of these companies' data will be a cornerstone of FinTech regulation.

However, to continue to facilitate FinTech innovation in the light of intensifying regulations – and to avoid discouraging FinTech firms nervous about successfully complying with them – governments and similar bodies will host 'sandboxes'.

These will allow FinTech start-ups to explore potential products without worrying about being penalised for failing to comply with regulations (and ensuring they can comply).

WHY FINANCIAL INSTITUTIONS MUST ADOPT ARTIFICIAL INTELLIGENCE

In the last decade – and especially in the previous couple of years – our world has undergone a rapid digital transformation and is now more technologically enabled than ever.

One of the most disruptive technologies has been Artificial Intelligence (AI) which has been used in countless industries to improve the efficiency, accuracy and productivity of various processes.

Though hurdles are slowing its adoption among many institutions, one sector set to be transformed by AI is the financial sector. As outlined in a recent report by McKinsey, it's estimated that AI could provide $1 trillion of value to financial institutions each year.

With adjacent industries like big tech dipping into the world of financial services – and digitally native generations such as millennials quickly becoming a dominant market force – traditional financial institutions (FIs) will have to adopt AI technologies to compete.

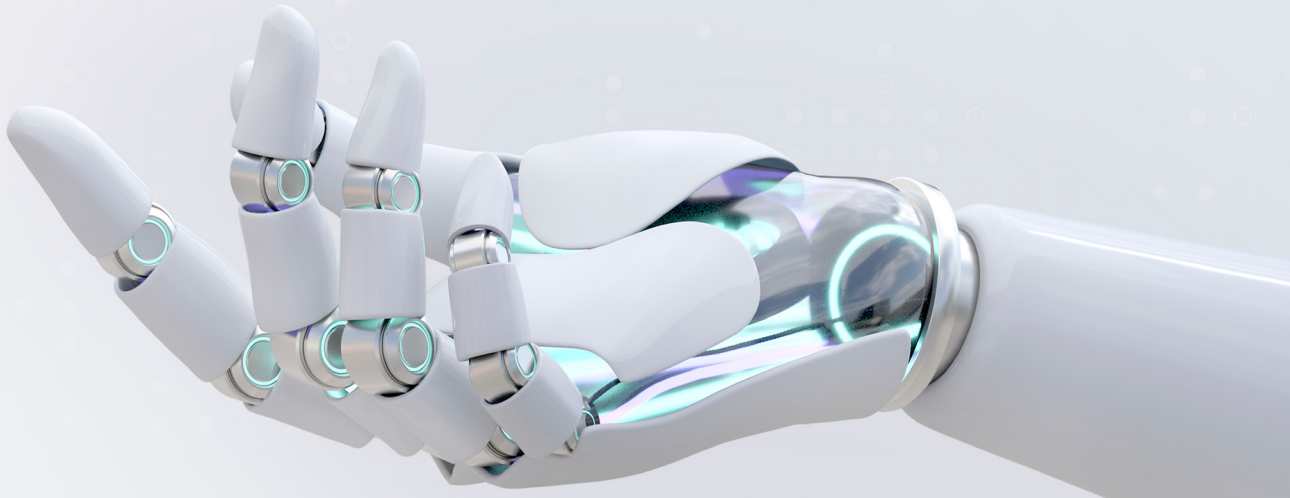
With this in mind, here are 4 significant ways AI will enhance financial institutions and their future services.

AI CAN REDUCE FINANCIAL CRIME.

Compared to human beings, artificial intelligence is incredible at detecting irregularities in data, which it does instantly and accurately.

AI can detect unusual transactions and banking activity indicative of fraud in banking. From this point, the cards for that particular bank account can be frozen, and the account owner is contacted about the potentially fraudulent activity, preventing money from being stolen.

Moreover, banking AI can use deep learning to trawl customers' data and identify possible illicit activities such as money laundering. According to Insider Intelligence, U.S. Bank has implemented AI for this purpose and doubled its output in detecting financial criminals.



AI CAN AUTOMATE REPETITIVE TASKS.

Across myriad industries, one of AI's most common use cases is the automation of repetitive, time-consuming, computer-based tasks using Robotic Process Automation (RPA) and similar AI-powered methods.

AI is trained to perform tasks ordinarily done by a person – by observing the process and learning the steps needed to complete each task – so that the FI's workforce can spend time on more valuable work that only people can do, such as client-facing roles.

In financial institutions, this will result in huge savings, mainly in the wages spent paying people to accomplish tasks that would be more efficiently (and accurately) completed by AI. In the future, we can expect that many "middle-office" tasks will be undertaken by artificial intelligence.

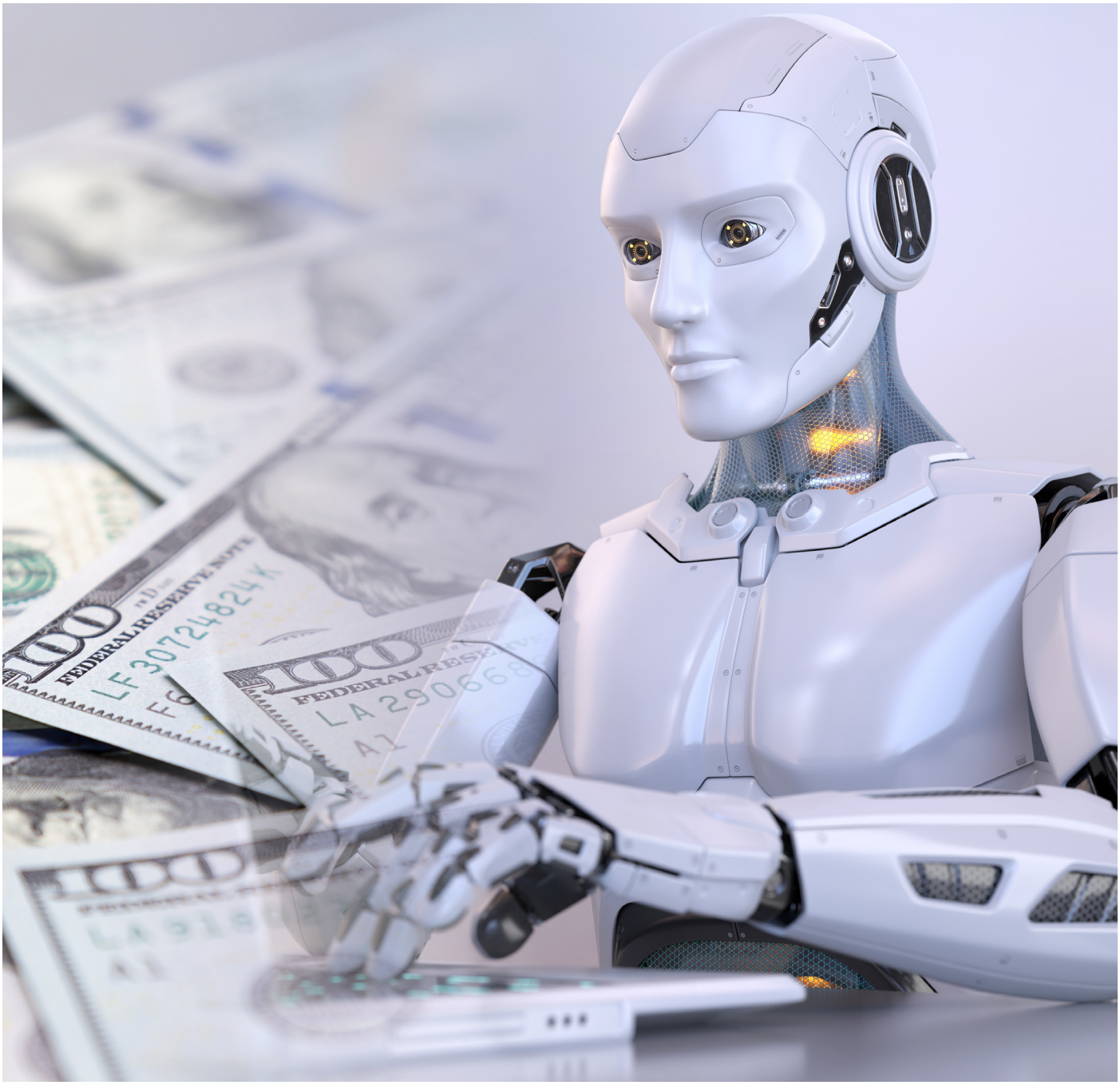
AI CAN PERSONALISE FINANCIAL SERVICES.

When offering financial services to their customers, traditional financial institutions can utilise AI to provide a more personalised banking experience – a feature that has become increasingly important to customers.

For example, based on customers' spending habits, AI may be able to provide relevant spending or saving recommendations, depending on the customer's goals. Financial institutions may also be able to offer personalised savings or investment recommendations based on customers' behaviour and financial goals.

Or, they can alert the customer to any unusual financial activity associated with their account or even detect when there has been a price increase for a regular outgoing cost – such as a subscription – and let the customer know.

AI-powered chatbots can also be programmed to give round-the-clock financial advice, using natural language processing to determine customers' needs and respond accordingly.



AI CAN ACCURATELY DETERMINE LOAN RISKS.

The Harvard Business Review stated that using AI to support the loan approval process may "make bank loans fairer".

This is because, unlike people, artificial intelligence doesn't contain internalised bias or prejudice towards certain groups of people – the characteristics of whom shouldn't affect the kind of loan they're afforded.

In contrast, AI makes judgements on data relating to a person's financial history and current financial health to determine the cost of the loan they should be given – and if they should be given a loan.

A study by UC Berkley found that AI-supported loans cost minorities 40% less on average than the rate charged by lenders.

In the future, we can expect AI to become an integral part of the loan approval and underwriting process to eliminate human bias from the process and distribute loans more fairly.

Though hurdles have prevented traditional financial institutions from widespread AI adoption thus far, FIs must integrate artificial intelligence into their systems and processes.

As we advance, financial institutions must implement a clear strategy for AI adoption, focusing on the comprehensive – rather than episodic – use of AI for specific tasks and processes and updating their systems, adapting to AI collaboration if they want to avoid being left behind by tech companies and tech-forward financial bodies such as digital banks.

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 Global Head of HR & Marketing - **Kerry-Ann Love.**

Q: Thank you so much, Kerry-Ann, for taking the time to do this interview. Can we start by letting our audience know about your background and role with AMA?

A: I have had the privilege of having a diverse career spanning Sales, Marketing, Human Resources and Organizational Effectiveness across multiple sectors. This has rewarded my passion for learning and developing. Still, most of all equipped me to do what I love: "Ensuring the organisation I work with is adding value to its clients and associates in the most efficient way". At Austen Morris Associates, my role is focused on our talent, building our brand, and ensuring we deliver what we promise to our clients.

Q: The impact of corporate culture on business results is broadly recognised; how would you describe AMA culture? What's the best part of it?

A: In my experience working with corporate culture, there is always an existing culture. Changing it is tricky if it is not the desired culture to drive the business forward. At Austen Morris Associates, my job is a little easier on the culture and associate value proposition aspect. Why is this? Austen Morris Associates already has an existing culture that supports the brand's values, and our strategic goals are for the future. Key aspects of our culture that excite me to come to work are the foundation of trust and partnership in every interaction and the authentic leadership and teamwork that drives our performance.

Q: How is the business and work in AMA post-pandemic?

A: Like most organisations worldwide, in the past two years, Austen Morris Associates has had: Challenges and Opportunities. One of the key opportunities we experienced was a shift to virtual meetings with prospects and clients, which completely supported our global footprint of clients and associates. This made it possible for our advisors to continue to service their clients and grow our client base.

Q: What are you most excited about in AMA's future?

A: Austen Morris Associates has two main winning attributes which will make it a success: 1) a solid heritage of experience in the industry and 2) the talent to drive and innovate regardless of challenges in the market. I am excited to see us maintain the territories we have been in for several years and achieve our audacious goals for new territories in Europe and North America.

Q: When you began your career many years ago, did you imagine that you would have a leadership role in AMA? How have you built confidence and resiliency throughout your career?

A: My first taste of management was in my second working role in my mid-twenties. I recall the nervous excitement of being a "Manager". Well, as most leaders will tell you, the excitement was short-lived when the reality set in. It was a bumpy ride of learning what it means to be a "manager" or "leader". From a confidence perspective, back then, it was a little "fake it till you make it", but tenacity has always been my strength. What does it mean to me personally to be a "leader"? A leader is coaching others to achieve and grow, which also requires being authentic about wanting them to succeed.

Q: What advice do you have for women looking to grow either their own business or within the company they work for?

A: I firmly believe growth and development are all about your individual drive. If you are not hungry to learn, to work harder than your colleagues and sometimes fail at trying new things – you will not grow in any organisation, and you most definitely won't succeed in running your own business. The second ingredient would be to have a passion for what you do with a splash of a sense of humour for the tough days.

WHY DIGITAL ONLY BANKING IS THE FUTURE

Fuelled in large part by the pandemic – and the shift in our lives to online – the number of people signing up to use digital-only banks has skyrocketed.

Although banks remained open as essential businesses over the last few years, many people preferred to keep their distance to avoid coming into contact with the virus. Likewise, cashless payment methods soared in popularity since the disease could be transferred via banknotes.

Not to mention, as non-essential stores shut, everyone became more used to carrying out essential activities online as the world embraced the rapid digital transformation that the pandemic made necessary.

These factors meant that digital banking became more popular than ever, and this popularity continues to grow. The number of people using digital banking is expected to soar to 3.6 billion in 2024.

WHAT IS DIGITAL-ONLY BANKING?

There's a difference between online banking services you use with a traditional bank – one with physical branches that you can visit – and digital-only banks.

Digital-only banks, as the name suggests, only operate online and don't have a physical presence.

New customers can sign up online with a digital-only bank by inputting their basic information and submitting documents verifying their identity online. From here, they can use financial services such as current and savings accounts, make transfers and payments, and access various extra features that traditional banks don't typically offer.

Here's why we think a future with digital-only banking is looming.

CONVENIENCE IS KEY.

In a world where you can buy a product from Amazon and have it arrive the same day with just one click, people are becoming increasingly impatient, and efficiency and convenience are top priorities.

So, travelling to a physical bank to care for your financial needs presents a less-than-ideal solution for this modern mindset. Signing up for a new account – or opting to use investment services – is a long and tedious process, making paperwork and bank visits necessary.

However, customers of digital-only banks can hop online and set up a bank account in minutes without leaving the comfort of their homes.

Likewise, after creating an account, digital-only bank users can access their banking via their smartphone at any time, being instantly able to check their balance, receive alerts about their spending and make payments and transfers on the go.

THEY COST LESS TO RUN.

Since there are no physical branches, digital-only banks have less overhead to contend with: they don't need to factor in the building – and maintenance – of a physical branch, and they forgo the need to pay customer-facing staff.

For this reason, setting up a digital-only bank is much more appealing – not to mention, there's a much lower barrier of entry in terms of cost – and you can bet that any new banks will enter the financial scene in the future will be digital only.

Due to the lower costs of maintaining a digital-only bank, digital-only banks have many financial benefits for customers, encouraging them to switch.

Often, digital-only banks allow fee-less transfers of funds from your account to other banks and offer free withdrawals from ATMs. They also forgo high-interest deposits and don't charge exorbitant fees if customers dip into their overdraft (most digital banks don't even offer an overdraft, compared to traditional banks that make a lot of money from their customers in this way).

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INCREASINGLY DIGITAL NATIVE POPULATION.

The younger generations – namely, millennials and Gen Z – are quickly becoming a dominant force in the economy and tend to guide (and indicate) consumer trends.

Critically, these are generations who have grown up in a technologically enabled world and are very comfortable completing everyday activities online that older generations may be more cautious of.

However, now that these digitally native generations are up to forty years old – and, as the years go by, they will comprise an even greater majority of the population – banking is likely to change as a result of the differing proclivities of these generations to those that came before them, paving the way for digital-only banks to become the new normal.

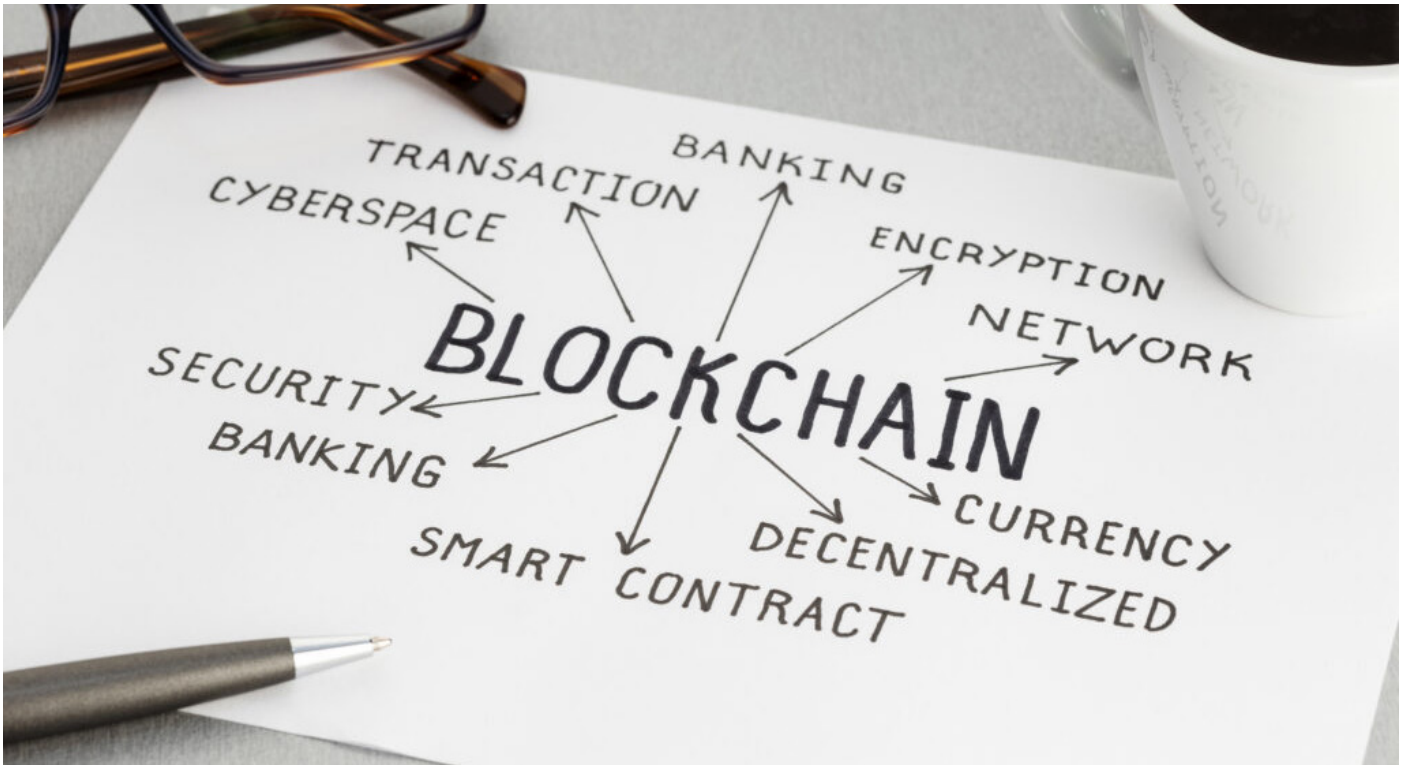
ENHANCED FEATURES.

Digital-only banks offer services that traditional banks typically don't, presenting users with a more personalised banking experience.

Many digital-only banks offer a budgeting feature to help customers save money and stay fiscally fit, including the option to set up spending alerts. Many digital-only banks also include the opportunity to receive in-app financial advice, set up 'bill splitting' to make shared bills less hassle, and even facilitate investing.

This helpful, more personal approach to banking is making many customers switch to digital-only, thanks to a banking model that aids – rather than detracts – customers' financial health. We expect more and more will make the switch in the future as digital-only becomes the norm.

HOW BLOCKCHAIN TECHNOLOGY IS MAKING OVER THE FINANCE INDUSTRY



Over the last few decades, technological development has been astounding, with new tech disrupting every industry, from agriculture to pharmaceuticals to finance and banking.

One of the most notable innovations has been the advent of blockchain and, subsequently, the development of cryptocurrencies and digital assets such as NFTs.

However, while these innovations were once considered detached from the world of traditional finance, this is changing, as the benefits of blockchain technology can no longer be ignored by traditional financial entities or by newer FinTech firms and start-ups.

WHAT IS BLOCKCHAIN TECHNOLOGY?

Blockchain technology comprises a decentralised public ledger made from a chain of "blocks" containing data – hence 'blockchain'. There are numerous copies of the ledger globally, so each new block added must be agreed upon by the network of ledgers.

In the blockchain, each new transaction – including information pertaining to the owner – is recorded as a new block. Once made, these blocks cannot be altered or deleted – only added, in the chronological order in which the transactions are made, with a link to the previous block. Hence, the blockchain creates a permanent record of the transaction history.

HOW IS BLOCKCHAIN DISRUPTING FINANCE?

Many everyday financial industry pain points have the potential to be improved by blockchain technology, improving efficiency, cost and even security.

Here's how.

BLOCKCHAIN CAN SPEED UP TRANSACTIONS.

In trade, a whole network of people involved in the exchange of goods is required to fill in forms to validate the transfer of ownership of goods, from the buyers to banks, to sellers and some intermediaries.

This process can take days to weeks. On the other hand, Blockchain accomplishes the same goal – ensuring ownership is agreed across an entire network, with everyone in the network receiving a copy – in one step.

This is just one example of how blockchain technology can help to speed up the efficiency of transactions – and this has numerous use cases in banking, particularly with international transfers and exchanges.

BLOCKCHAIN CAN HELP REDUCE CRIME.

Blockchain technology can help to safeguard against different types of crime.

For one, because as transactions are recorded, they're secured and encrypted – and they don't pass through multiple intermediaries – fraud is much more difficult to accomplish. Buyers can be confident that their transactions aren't being interfered with.

Moreover, the record of transactions kept on the blockchain is transparent, so people can see who has purchased and owns what, making ownership very easy to prove.

Once data has been inputted and agreed by the system, it would require all the ledger copies to be attacked at once to change or delete blocks in the blockchain, so 'ownership' of a particular block – which, for example, could represent an asset – can't be stolen.

This feature of blockchain technology also makes transactions highly traceable. This means that exchanges associated with illicit activities can be traced back to a particular individual or entity more easily.

Likewise, if an individual falls prey to a scam, the scammer can be easily traced, as the record of the transaction made with the scammer can be linked back to the scammer.

BLOCKCHAIN CAN LOWER COSTS FOR INDIVIDUALS AND BUSINESSES.

Traditionally, transactions made between individuals or entities are processed through several intermediaries, including banks, which often come with heightened fees – this is even more true when exchanges are made internationally.

For example, when a customer uses their debit/credit card to pay for goods or services, a fee is paid by the merchant to the bank, reducing their revenue.

However, blockchain technology allows banks to be bypassed altogether when making transactions, resulting in lower costs.

CYBERATTACKS ARE MUCH LESS LIKELY.

Data security is a huge priority in the financial industry, with cyberattacks and data breaches being one of the biggest threats to banks and FinTech companies.

Because blockchain is incredibly secure and data is encrypted as transactions are made – in addition to the fact that many computers across the world are responsible for maintaining the blockchain – it's significantly more difficult to breach compared to traditional banking systems.

Greater security is a massive advantage to financial firms, as it improves customer trust and significantly reduces costs associated with protecting – and recovering – from cyberattacks.

SO, WILL THE FINANCIAL INDUSTRY BE REVOLUTIONISED BY BLOCKCHAIN TECHNOLOGY?

Traditional financial entities like banks are already incorporating blockchain technology into their operations.

In 2016, Barclays partnered with a start-up to orchestrate the first trading transaction on the blockchain. Big financial names such as PayPal are already working on integrating blockchain into their systems.

However, because this technology is relatively new, the regulation and legislation aren't yet in place to facilitate the mainstream adoption of blockchain in the financial industry – and winning consumer trust will be another hurdle to overcome before this can happen.

That being said, it's highly likely that blockchain will ultimately make over the financial industry over the next decade or two, reducing costs, increasing efficiency and improving the security of transactions.

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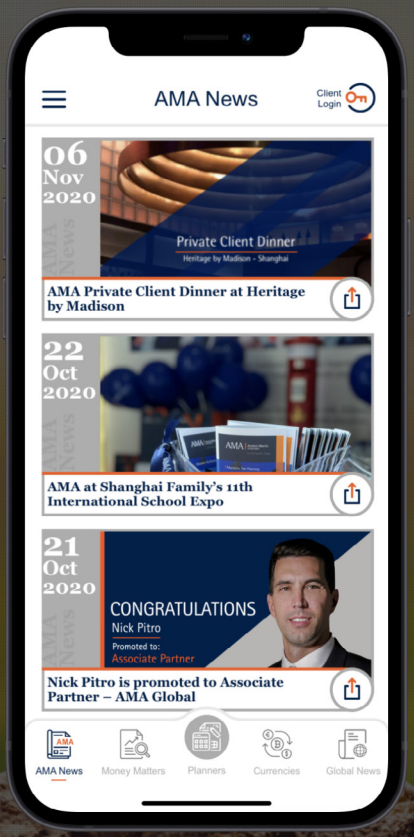

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