NOVEMBER

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FINANCIAL INSIGHTS

by

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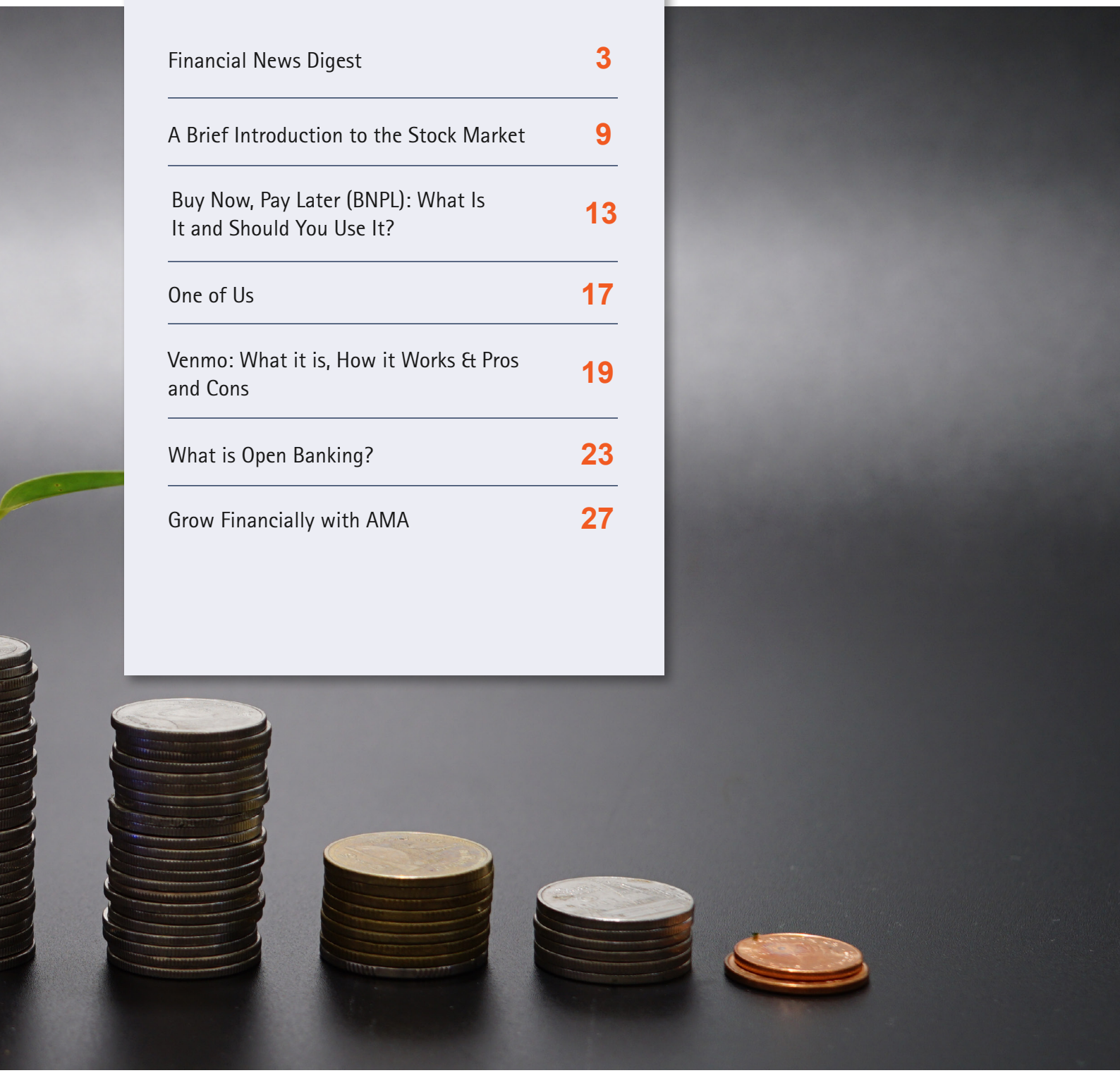
CONTENTS



FINANCIAL NEWS DIGEST - NOVEMBER 2022

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AT THE BEGINNING OF NOVEMBER

European stocks soar as BoE turns more dovish

UK and European stocks rose for a third consecutive week (28 Oct - 4 Nov) after the Bank of England (BoE) signalled a more dovish outlook for UK interest rates.

The FTSE 100 leapt 4.1%, Germany's Dax gained 1.6% and the pan-European STOXX 600 rose 1.5%. This was despite warnings of a two-year UK economic slump and higher-than-expected eurozone inflation.

China's stock markets also rallied, with the Shanghai Composite surging 5.3% on rumours the country was considering relaxing its zero-Covid strategy. These hopes were subsequently quashed over the weekend, when China's National Health Commission reiterated its commitment to eliminating Covid-19 and said its prevention and control strategy was "completely correct".

Stocks rise ahead of US CPI

US indices rose on Monday (7 November) as investors looked ahead to Tuesday's midterm elections and the release of the closely watched consumer price index (CPI) report. The Dow advanced 1.3% and the S&P 500 added 1.0%.

In contrast, the FTSE 100 slipped 0.5% on Monday as the denial of any easing of China's zero-Covid policy dented investor sentiment. In economic news, data from Halifax showed house prices fell by 0.4% month-on-month in October, the steepest monthly decline since February last year. The blue-chip index extended declines at the start of trading on Tuesday, as figures from BRC/KPMG showed UK retail sales slowed in October.

BoE lifts base interest rate to 3.0%

The Bank of England's monetary policy committee (MPC) voted to increase the base interest rate by 0.75 percentage points – the biggest rate hike since 1989. The base rate now stands at 3.0%, up from just 0.1% in December last year. The BoE warned of a "very challenging outlook", with the economy forecast to remain in recession for two years until mid-2024 and unemployment rising to 6.4%.

Fed warns of higher interest rates

Whereas the BoE's comments were seen as relatively dovish, the chair of the Federal Reserve adopted a hawkish tone after US interest rates were lifted by 0.75 percentage points, in line with expectations.

A statement by the Federal Open Market Committee was interpreted by markets as a signal that the central bank could slow the pace of rate hikes. In a post-meeting press conference, however, Powell said interest rates would peak at a higher level than previously expected and that the Fed has "some ways to go" in its attempt to rein in inflation. He also hinted that the central bank preferred to raise interest rates too high, potentially sparking a recession, rather than risk keeping rates too low to bring down inflation.

Eurozone inflation hits 10.7%

The beginning of November also saw the latest eurozone inflation figures release. According to Eurostat, annual inflation rose to a higher-than-expected rate of 10.7% in October, up from 9.9% in September. This was driven by surging energy prices, which increased 41.9% year-on-year. Food, alcohol and tobacco prices also rose sharply, by 13.1% year-on-year.

US inflation lower than expected

Last week's economic headlines were dominated by the surprise drop in US inflation. The headline CPI rose by 7.7% year-on-year in October – the slowest rate since January and below the 8.0% figure expected by economists. On a monthly basis, the CPI rose 0.4%, below expectations of around 0.6%.

Even more encouraging was an easing in core inflation, which strips out food and energy prices. This fell back to an annual rate of 6.3% from a 40-year high of 6.6% in September. Shelter was the dominant factor driving core CPI, rising by 0.8% month-on-month in October – the biggest increase in over 32 years. When food, energy and shelter are stripped out, the CPI declined by 0.1% from the previous month.

Global manufacturing PMI slips further

Elsewhere, JPMorgan's global manufacturing purchasing managers' index (PMI) fell further into contraction territory in October, slipping to 49.4 from 49.8 in September. The output index signalled a third successive monthly drop, with the rate of decline accelerating to the fastest since June 2020. Of the 31 economies included in the survey, 21 reported falling production.

The eurozone and the UK saw marked downturns on the back of weak demand, while the pace of growth in North America remained only marginal. The gauge of business optimism fell to its lowest level since May 2020 and was particularly weak across the eurozone, UK and US.

AROUND THE MIDDLE OF NOVEMBER

Stocks mixed as UK chancellor hikes taxes

Stock markets gave a mixed performance (11-18 Nov) as investors digested a slew of tax hikes in the UK and signs of an economic slowdown in the US.

The FTSE 100 ended the week up 0.9% after data showed UK retail sales bounced back in October. Germany's Dax gained 1.5% as a survey showed investors became less pessimistic for a second month in row in November. In contrast, US stocks fell last week following mixed economic data. Whereas US retail sales were above forecasts, a gauge of manufacturing fell to its lowest level since May 2020. The S&P 500 lost 0.7% and the Nasdaq declined 1.6%.

In Asia, Japan's Nikkei 225 slid 1.3% as core consumer price inflation rose to a 40-year high and gross domestic product (GDP) unexpectedly contracted in the third quarter. China's Shanghai Composite added 0.3% after a meeting between Chinese president Xi Jinping and US president Joe Biden helped to boost sentiment despite a rise in Covid-19 cases.

Investors look ahead to autumn statement

The FTSE 100 started this week in the green, rising 0.9% on Monday (14 November) as investors looked ahead to UK chancellor Jeremy Hunt's autumn statement on Thursday. Hunt is expected to announce a range of tax increases and spending cuts to help plug a hole in the public finances. In economic news, data from Rightmove showed the average UK house price declined by 1.1% in November following a 0.9% increase the previous month.

US stocks fell on Monday following reports that e-commerce giant Amazon is considering laying off 10,000 employees – roughly 1% of its global workforce. The S&P 500 slipped 0.9% and the tech-heavy Nasdaq lost 1.1%.

UK economy shrinks in third quarter

Here in the UK, figures released on Friday showed UK GDP shrank by 0.2% in the third quarter, marking the first quarterly decline since the start of 2021. Output slowed in services, production and construction, while real household expenditure declined by 0.5% as prices soared. GDP in September alone fell by 0.6%, although the ONS noted that data for the month was affected by the bank holiday for the state funeral of HM Queen Elizabeth II. Regardless, it leaves the UK economy, unlike its developed European peers, smaller than it was before the pandemic.

The data came a week after the Bank of England warned the UK was heading for its longest recession since records began a century ago. GDP is expected to continue falling through 2023 and into the first half of 2024.

Eurozone facing imminent recession

The eurozone and most EU countries are also heading for an imminent recession, according to the European Commission. EU economy commissioner Paolo Gentiloni said at a press conference that the economic situation had "deteriorated markedly" and the eurozone was heading into two consecutive quarters of contraction – the technical definition of a recession.

The commission said that while GDP growth in the EU is likely to be better than expected this year – at 3.3% rather than 2.7% – a weaker external environment and tighter financing conditions are expected to tip the EU, the euro area and most member states into a recession in the last quarter of the year. "As inflation keeps cutting into households' disposable incomes, the contraction of economic activity is set to continue in the first quarter of 2023," the commission added. "Growth is expected to return to Europe in spring, as inflation gradually relaxes its grip on the economy."

Hunt confirms tax increases

Last Thursday saw UK chancellor Jeremy Hunt deliver his autumn statement, in which he confirmed a range of tax increases and spending cuts to help narrow the gap between the government's income and outgoings and demonstrate fiscal responsibility to the markets.

The raft of tax hikes included slashing the capital gains tax exemption, dividend allowance and additional-rate income tax threshold, and extending the freeze on the personal allowance, higher-rate income tax threshold and inheritance tax nil-rate band. Hunt also announced that public spending would rise by just 1% a year in real terms in the next parliament. The energy price cap will increase from April 2023, meaning the average household will see their bills rise from £2,500 to £3,000 a year.

The autumn statement was accompanied by the Office for Budget Responsibility's economic and fiscal outlook, which warned that a squeeze on real incomes, rise in interest rates and fall in house prices would see the economy fall into a year-long recession from the third quarter of 2022. GDP is forecast to contract by 1.4% in 2023 before rising by 1.3% in 2024 as energy prices and inflation fall.

TOWARDS THE END OF NOVEMBER

Eurozone inflation slows for the first time since 2021

Shares in Europe rose for the seventh consecutive week (25 Nov - 2 Dec) as a slight easing of inflation raised hopes of slower interest rate hikes.

The STOXX 600 ended the week up 0.6%, with signs of improving economic confidence also helping to boost investor sentiment. The FTSE 100 gained 0.9% despite a sharp slowdown in the UK housing market.

In the US, the S&P 500, Nasdaq and Dow rose 1.1%, 2.1% and 0.2%, respectively, after Federal Reserve chair Jerome Powell signalled smaller interest rate hikes.

In Asia, the Shanghai Composite added 1.8% and the Hang Seng surged 6.3% amid signs that China is moving away its zero-Covid policy. Japan's Nikkei 225 underperformed, falling 1.8% as data showed a decline in industrial production and consumer confidence.

China reports first Covid deaths since April

Stocks started this week in the red on concerns China could implement further lockdowns after reporting its first Covid-related deaths since April. In Beijing, where cases have hit a fresh record high, business and schools in the most affected districts have been shut and there are tighter rules for entering the city. The FTSE 100 slipped 0.1% on Monday (21 November) while the S&P 500, Shanghai Composite and Dax all lost 0.4%. Oil prices also declined as analysts warned lockdowns could dampen demand.

The FTSE 100 was up 0.7% at the start of trading on Tuesday after Saudi Arabia denied reports that OPEC was considering an increase in oil production.

UK retail sales rise in October

More positively, data published on Friday (18 Nov) showed UK retail sales bounced back in October, with volumes up 0.6% from the previous month, according to the Office for National Statistics (ONS). This was double the 0.3% increase forecast by economists in a Reuters poll. It followed a 1.5% decline in September, when sales were impacted by the bank holiday for the funeral of HM Queen Elizabeth II.

Sales in the three months to October were 2.4% lower than the previous quarter, suggesting the rising cost of living is resulting in consumers reining in their spending. Sales were also 0.6% below their pre-pandemic February 2020 level, yet shoppers spent 14.2% more as a result of high inflation.

Japan core inflation hits 40-year high

Over in Japan, core inflation (excluding fresh food prices) hit a 40-year high in October as a weak yen pushed up the cost of imported commodities. Prices rose at an annual rate of 3.6% in October, up from 3.0% in September. Unlike other central banks, the Bank of Japan (BoJ) is sticking with its policy of ultra-low interest rates. The BoJ's governor, Haruhiko Kuroda, reiterated the bank's pledge to maintaining monetary stimulus to achieve wage growth and sustainable and stable inflation.

Fed signals smaller rate hikes

US Federal Reserve chair Jerome Powell said in a speech last week that the central bank could slow the pace of interest rate increases as soon as the mid-December policy meeting. Many commentators are now anticipating a 0.5 percentage point rate hike at the December meeting, as opposed to the four consecutive 0.75 percentage point rate hikes that preceded it. However, Powell also warned against relaxing monetary policy too soon and said the peak interest rate could be higher than previously forecast.

Powell said that in order to bring inflation back down, the labour market would need to soften. However, Friday's nonfarm payrolls report showed the economy added 263,000 jobs in November, exceeding consensus estimates, while the unemployment rate stayed at 3.7%. Average hourly earnings were up by 0.6% month-on-month, pushing the annual rate of increase to 5.1% from 4.7% the previous month.

UK house price growth slows

Here in the UK, the latest research from Nationwide showed a sharp slowdown in annual house price growth to 4.4% in November from 7.2% in October, as the fallout from the mini-budget continued to impact the market. Prices fell by 1.4% month-on-month, the largest fall since June 2020.

Robert Gardner, Nationwide's chief economist, said that while financial market conditions have now stabilised, interest rates for new mortgages remain elevated and the market has lost a significant degree of momentum. "Housing affordability for potential buyers and home movers has become much more stretched at a time when household finances are already under pressure from high inflation," he said.

A BRIEF INTRODUCTION TO THE STOCK MARKET

If you're new to finance and investing, you're likely looking for an explanation of the terms thrown about everywhere in the stock trading world – in addition to the stock market itself.

For that reason, we've created this brief introduction to the stock market to understand better what it is when you take your first steps into the world of stock trading.

WHAT IS THE STOCK MARKET?

The stock market allows shares – belonging to publicly held companies – to be bought and sold, facilitated by an array of stock exchanges, which act as marketplaces where these transactions can be made.

The two largest exchanges are the New York Stock Exchange, where brokers exchange securities on a trading floor, and NASDAQ.

After the New York Stock Exchange, NASDAQ became the most prominent stock exchange and became the world's first electronic stock market, providing a digital alternative to the traditional stock exchange.

Now, stocks listed on NASDAQ can be traded online, and more than 3000 companies have shares listed on the NASDAQ stock exchange, including Apple, Amazon and Facebook.

In what's known as the primary stock market, companies offer an initial set of shares – a.k.a. fractions of ownership in the company and the associated capital – to buyers in what is known as the 'initial public offering' (IPO). On the secondary market, investors trade, buy and sell securities that they – or another investor – own.

In addition to allowing investors to trade securities, the stock market is also a key indicator of the economy's health.

When the price of shares held on the stock exchange increases, the stock market is said to be rising; when prices reduce and the value of companies' shares decreases on average, the stock market is described as falling.

In general, a rising stock market indicates a healthy, growing economy – and investors tend to purchase stocks during this time.

Specific 'indexes' are used to track the stock market's performance and guide many of the decisions made by investors, who often choose to invest in companies represented in these indexes – whether through purchasing individual stocks or through vehicles such as ETFs.

Bearing this in mind, you should know a few key indexes.

THE S&P 500.

The Standard & Poor's 500 Index is probably the most well-known and comprises the 500 top companies' publicly traded shares in the US.

Some of the top companies within the S&P 500 include Apple, Microsoft, Amazon, Meta and Tesla, among others in various industries.

Because of this, the S&P 500 is often used to gauge the performance of the stock market overall and inspire investors looking to invest in the stocks of top-performing companies or in ETFs that comprise stocks included within the index.

After all, the annual return of the S&P 500 over ten years is around 13.9%, making it worth keeping an eye on for investors.

DOW JONES.

Dow Jones & Company is responsible for some of the most infamous financial news outlets, including the Wall Street Journal and MarketWatch.

Just as significantly, however, the company created the Dow Jones Industrial Average (DJIA) – one of the most closely watched indexes in the world.

Though the index used to track securities in the industrial sector primarily, the DJIA now contains 30 companies, from Microsoft to Coca-Cola, representing some of the most actively traded stocks globally.

However, some other indexes created by Dow Jones focus on the performance of specific sectors, including the Dow Jones Transportation Average and the Dow Jones Utility Average.

FTSE.

An acronym for the Financial Times Stock Exchange, FTSE – affectionately known as Footsie – created, among many others, an index comprising 100 companies listed on the London Stock Exchange with the highest market capitalization.

In essence, the FTSE 100 is the most significant UK equivalent to the S&P 500, with some of the top companies in the index including Unilever, AstraZeneca and BP.

BUY NOW, PAY LATER (BNPL): WHAT IS IT AND SHOULD YOU USE IT?

Since 2020, the rise of Buy Now, Pay Later (BNPL) schemes has skyrocketed, allowing customers to make purchases online without paying for the item all at once; instead of paying for the item in full when you checkout, customers can select the BNPL option, which spreads the payments for the item out over a given period of time.

SO, WHAT EXACTLY IS BNPL?

Buy Now, Pay Later is a form of short-term financing enabling customers to spread out payments for a purchase over a period in equal instalments. This option is now found at the checkouts of many online retailers.

When selecting the BNPL option, customers will input a few key pieces of information that allow the BNPL firm to either approve or deny short-term financing for customers. This approval process is completed within seconds.

Customers using BNPL will typically pay 25% of the cost of the item upfront and the rest in a further three instalments. Often, this is over six weeks, with shoppers paying the remaining instalments every two weeks.

Usually, this will be without interest or fees, though this depends on the BNPL firm – since the merchant doesn't facilitate BNPL – and/or the length of the repayment period.

These instalments are typically paid by the consumer via a bank transfer or taken automatically from their bank account or credit card.

WHAT ARE THE ADVANTAGES FOR SHOPPERS?

BNPL can help shoppers make purchases they might otherwise struggle to afford, making the purchase more manageable by splitting it into instalments and spreading the cost over weeks or months.

Moreover, compared to financing options such as credit cards and loans, BNPL has lower credit requirements; even those with poor credit can be approved for BNPL, making them a financing option for those with fewer financing options.

What's more: when getting approved for BNPL, BNPL firms usually only conduct a soft credit check, which doesn't harm your credit score (however, the PayPal BNPL scheme conducts a hard pull on your credit – which does hurt your credit score).

The instalments paid to BNPL services are usually interest-free, so customers don't end up paying more for the product just because they took a little more time to pay off the total value of their purchase.

WHAT ARE THE DISADVANTAGES FOR SHOPPERS?

Though BNPL often comes with no interest or fees, this isn't always the case – particularly if the instalments are made over a more extended period or if payments are made late.

With Afterpay, for example, late fees can cost up to 25% of the value of the purchased item. On the other hand, Affirm doesn't charge late fees, but their BNPL financing option allows customers to pay their purchase back over 12 months and can charge an APR of 10-30%, depending on shoppers' credit.

Another charge to watch out for is deferred interest. Some companies offer 'no interest if paid in full schemes, in which there is no charge if a customer makes all their payments on time. However, if you miss a payment, retroactive interest may be charged on all previous and future payments. Klarna is an example of a BNPL firm that employs this method, charging deferred interest of 19.99% on the entire purchase if a payment is missed.

More than the potentially costly fine print in terms of the BNPL loan, you should be aware of other potential downsides to using BNPL.

For one, making purchases this way often seem more affordable and budget-friendly, making it easy to overextend and spend money more carelessly than you would when buying the same item outright at full price. This can lead to accruing debt, mainly if interest rates and fees apply to late payments.

Lastly, unlike other financing options such as credit cards, BNPL doesn't help you build good credit. Building credit is vital because it can help you get more affordable financing and obtain key financial goals, such as owning a house – since good credit allows you to obtain a mortgage.

SO, SHOULD YOU USE BUY NOW, PAY LATER?

As long as BNPL is used infrequently and responsibly, it can help to make bigger, one-off purchases easier to afford and more budget-friendly.

However, these schemes also make it easier to overspend, and not factoring in repayments into your budget can lead to missed payments, which can make purchases significantly more expensive than if you'd paid for the item outright.

Moreover, BNPL doesn't offer many financial benefits of other financing options, such as building good credit or getting cashback/rewards like those provided by credit cards.

So, if there's a product you need, and spreading the cost of the item over several weeks will help to relieve some of the financial pressure of making the purchase, then it can be worth using Buy Now, Pay Later (BNPL) as a financing option.

Otherwise, you should consider paying for the item in full or using a credit card if you're sure you can pay off your monthly balance.

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 Senior Consultant - **Ben Nevin.**

Q: Thank you so much, Ben, 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 initially set out to build a career in law. During my studies, I was lucky enough to spend a great deal of time learning from some of the top minds at a top-tier law firm, most notably in the Banking and Financial Services Regulatory division. This provided an introduction to what would ultimately lead me to my future career in finance and wealth management.

At AMA, I look after a wide range of top industry clients in the Senior Consultant role. I assist my clients with various aspects throughout their investing journey, implementing sustainable financial practices and building robust portfolios to see them through all eventualities.

Q: Why did you decide to switch from law to finance? Is your law background helpful in the finance industry?

A: Working in finance allows me to help clients on a more personal and individual level than I would be able to achieve in law, and I can work closely with each client to create an experience that is individual to them.

My legal background allowed me to view things from an alternate perspective and focus on specific details that can sometimes be overlooked.

Q: You were the regional director of an international firm by age 30. How did you achieve that at such a young age?

A: Consistency, hard work, and a bit of luck. I worked longer hours than those around me, asked plenty of questions, and sacrificed weekends to ensure that I was ahead of where I needed to be. Senior members noticed these acts, and I was lucky enough that the right people saw this.

Q: Who is your favourite money manager, and why?

A: I would have to say Peter Lynch for his knowledge and brilliance – averaging a 29% annual compounded rate of return whilst at Fidelity – but also his simplicity in investing principles such as "invest in what you know".

Q: What does this financial crisis look like compared to the previous crashes in terms of people's reactions? What's trending now, and are people investing more or is it the other way around?

A: The world has created a scenario of instant gratification, and as we move into the future, people are looking for quick wins. When people experience the opposite, this pain is magnified even more.

With that said, reactions are based on expectations. If expectations are managed correctly, and a proactive approach is followed, you will see lower reactive responses to adverse events.

Each financial crisis is different, but the one thing they all have in common is that they don't last forever.

Q: Do you invest in cryptocurrency? How do you see its future?

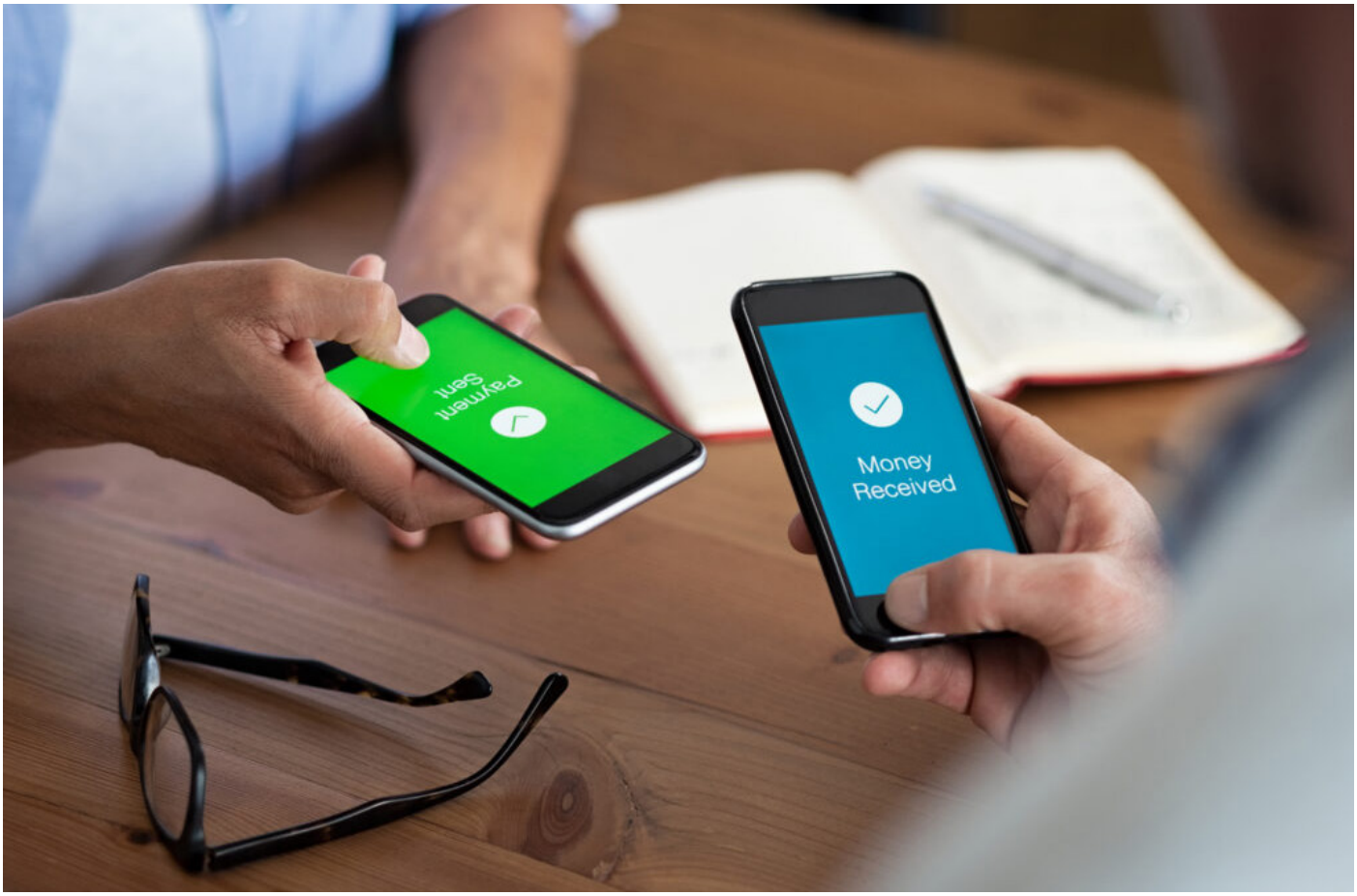
A: I stick away from unregulated asset classes or containing too many unknown elements. There is just too much risk involved.

As for the future of cryptocurrency, it is anyone's best guess, and I prefer not to speculate.

Q: Are you watching World Cup football? What team are you supporting, and who do you think can win this?

A: The results of this World Cup have been a huge surprise, with many major teams falling at the group stages. It would be great to see the Netherlands take it home for a change; they have come so close on many occasions.

VENMO: WHAT IT IS, HOW IT WORKS & PROS AND CONS



Over the last decade or so, the number and popularity of digital payment services have soared, with an array of apps and platforms available to make finance more seamless.

One of the most popular payment service apps in the U.S. is Venmo, a peer-to-peer (P2P) payment app founded in 2009.

WHAT IS VENMO?

Venmo is a peer-to-peer payment app enabling users to quickly send or receive money from their friends, family or acquaintances.

Venmo achieves this with a social twist since users can send messages and emojis with their payments and like or comment on exchanges made between friends on a social media-like feed.

Since its founding, Venmo has expanded its horizons, becoming a payment option with retailers such as Hulu, Footlocker, and millions more participating merchants. Venmo users can use their Venmo accounts to do their shopping.

Both these services are free for users, though merchants pay 1.75% of the cost of each transaction.

HOW DOES IT WORK?

To use Venmo, you must first download the app – available for iPhone and Android phones – and link the app to either your bank account, debit card or credit card (though you should note that credit card payments are subject to a fee worth 3% of the transaction).

Then, you can start sending or receiving money from any Venmo user by tapping either 'pay' or 'request' and entering the username, email or phone number of the person you want to send or request money.

When you receive funds from another Venmo user, the amount will detract from their account and add to yours. You can then keep the money in your Venmo account or transfer it to your bank account.

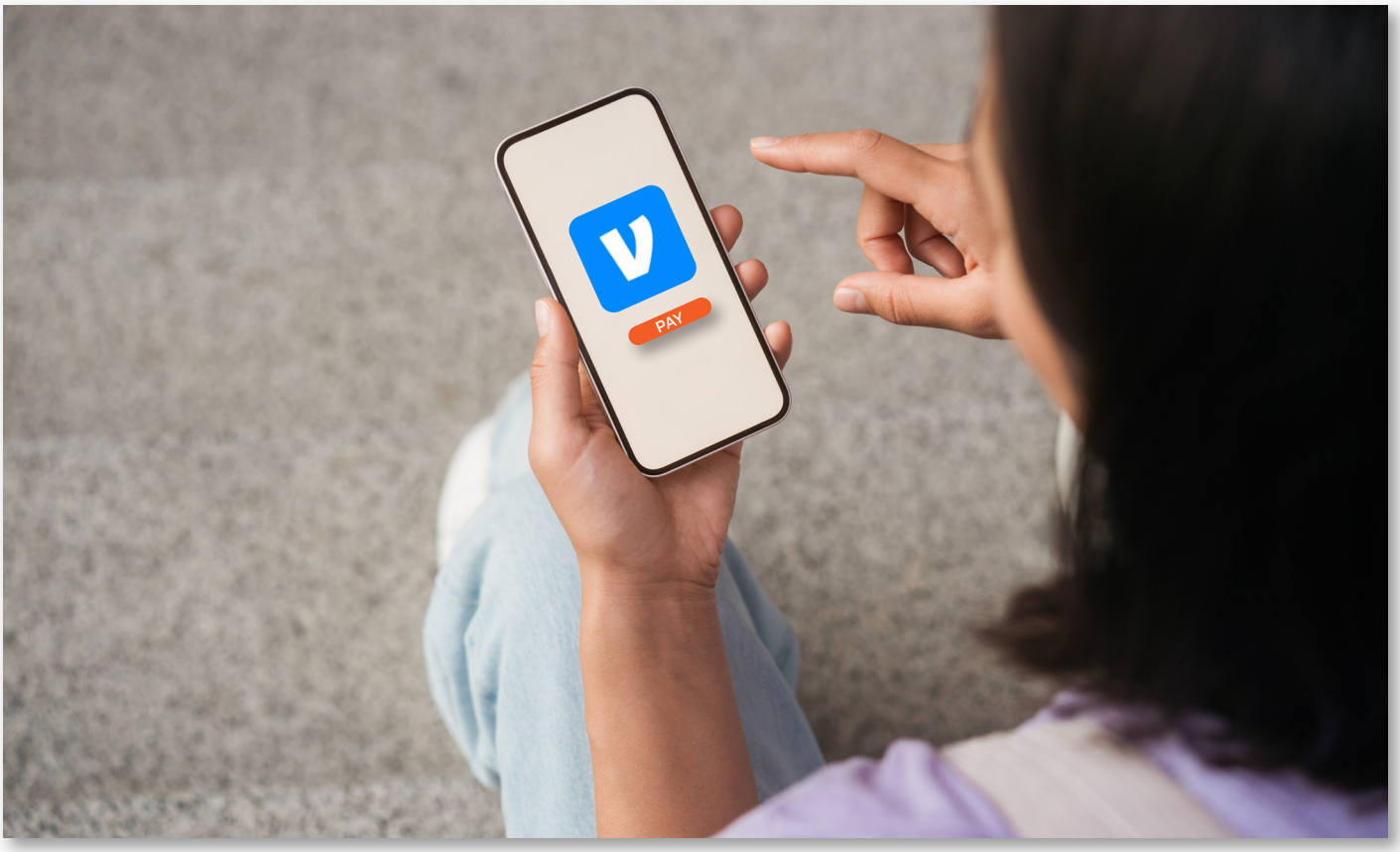
This transfer typically takes 1-5 days, though Venmo users can opt for 'instant transfer' to have the money transferred within 30 minutes. Still, you must pay a fee of 1.75% of the value transferred.

WHAT ARE THE PROS OF USING VENMO?

1. QUICK AND EASY TO MAKE PAYMENTS.

Within minutes of downloading the app, you can start making payments to friends and acquaintances, needing only a single piece of contact info to send and request money instantly.

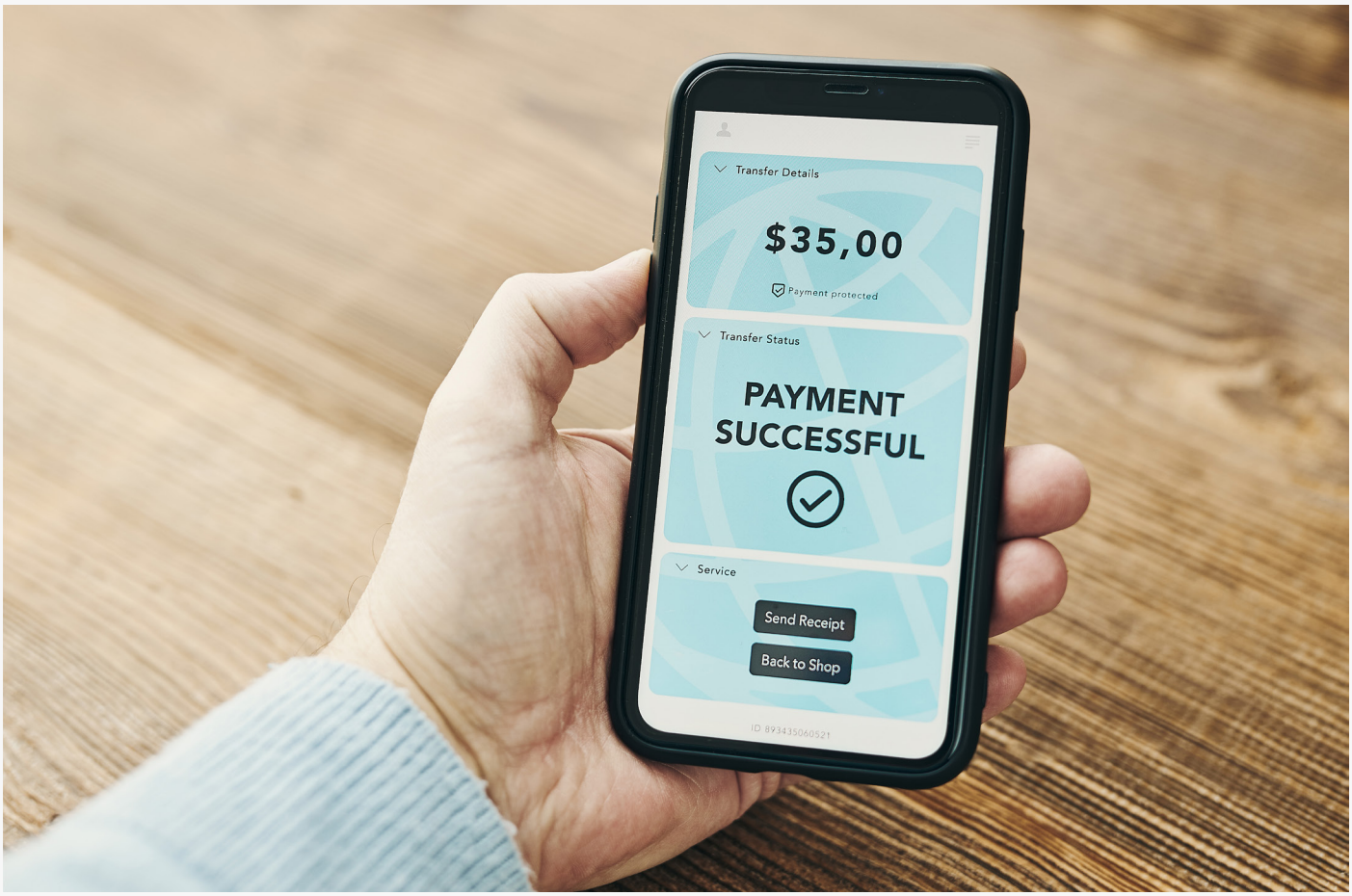
Venmo makes splitting bills easier, as you can request the same amount of money from multiple people at once. Venmo also provides a calculator to help divide costs fairly.



2. THE SOCIAL ASPECT.

Thanks to the customisation features – including the ability to add notes and emojis to the funds you transfer or request – Venmo can make asking people to pay you back a lighthearted, whimsical task.

The 'request' function also allows you to remind someone to pay you back what they owe without the awkwardness of having to message them directly and organise a bank transfer.



3. BASIC SERVICE IS FREE FOR USERS.

Venmo users don't have to pay fees to send or receive money from other users or transfer money from their Venmo to their bank account.

This means Venmo users can benefit from the ease and convenience of the P2P service without losing out financially.

WHAT ARE THE CONS OF USING VENMO?

1. CAN'T MAKE INTERNATIONAL PAYMENTS.

To use Venmo, you must live in the U.S. and have a U.S. phone number.

This means that even if you're a U.S. native, you can't send or request funds from any of your international friends or family members.

2. TRANSACTIONS ARE PUBLIC BY DEFAULT.

Venmo's default settings make it so that all of your exchanges – including the messages sent along with funds (though not the amount sent) – are visible to any Venmo user who wants to view them.

If you want to keep your finances more private, you'll need to go and alter your settings accordingly.

3. POTENTIAL SCAMS AND HACKERS.

The biggest downside to using Venmo is the potential for your money to be stolen.

If a hacker gains access to your Venmo, it's pretty easy to change the associated bank account – so the hacker could change the account to their own and transfer the money in your Venmo to their bank.

What's more, a common Venmo scam has users being sent money by a scammer who asks for the money back, claiming it was an accident. In actuality, the scammer has used a stolen credit card, and when the cardholder reports the fraud, Venmo will remove the sum from your account; if you've already sent the scammer the money back, this is bad news for you.

CONCLUSION...

Venmo provides an easy way for people in the U.S. to exchange money, make bill splitting easier and pay friends and family back without extra costs.

However, when using the app, it's essential to be highly mindful of security: avoid leaving any significant funds in your Venmo account, never share your password and always report any unusual activity to Venmo to protect your finances.

WHAT IS OPEN BANKING?

In the past, banking was centralised and financial services were primarily offered by banks themselves.

With the advent of global digitalisation, however, open banking presents a world of financial opportunity that extends beyond the traditional banking system, to provide more connected, personalized comprehensive financial services to customers.

WHAT IS OPEN BANKING?

In essence, open banking is the practice of sharing financial data – such as transactions and account details – between banks and third-party entities. These include parties such as fintech companies providing connected financial services.

Open banking is accomplished with the use of APIs – Application Programming Interfaces – which allow data to be shared between networks of financial institutions in real time.

Unlike methods used by some financial service providers in the past, open banking accomplishes this without requiring customers to share login details and passwords to their bank accounts.

WHAT ARE THE BENEFITS OF OPEN BANKING?

There are several ways in which open banking may improve finance with its disruptive technology.

Here are the top 5.

GREATER INSIGHT INTO YOUR FINANCES.

Since open banking allows your banks to share your financial data, this means that data from all of the banks and different accounts you use can be aggregated in one place.

Some open banking-powered platforms allow customers to create dashboards with this data, allowing app users to obtain a comprehensive overview of their financial situation formed from the entirety of this data.

PERSONALISED SERVICES.

As a society, we're becoming increasingly switched on to the value that personalisation provides.

This is especially valuable for financial services such as budgeting tools and recommending systems that can help guide your financial health.

With open banking, these apps and tools are able to use all users' relevant financial data to make the financial service tailored to their specific financial situation, to make the service as useful to them as possible.

ENCOURAGES FINANCIAL INNOVATION.

Banks used to have a monopoly over the financial sector. This meant that they only had to provide what other banks were offering, and weren't driven to innovate and improve their financial services for their customers.

After all, fewer competitors were trying to transform and disrupt the market.

In this way, open banking has changed the game, since third-party finance firms can use customers' banking, transactional and financial data to deliver financial services that are tailored to them and provide value as a result.

This is likely to set a fire under traditional banks to improve their offerings, too.

COULD SAVE CUSTOMERS MONEY.

Because the APIs used in open banking can aggregate and analyse a person's financial data across all their accounts – as well as obtain data about other financial institutions – open banking apps have the potential to save customers money.

For example, if the API can learn the interest rates of an individual's savings accounts, it could provide personalised recommendations for newer, more profitable savings accounts they should consider switching to.

Similarly, when applying for a loan, loan-approval processes powered by online banking may provide more affordable terms for customers, since transactional data such as regular, timely rent payments and more can be obtained from banks.

STREAMLINE LOAN-APPROVAL PROCESSES.

Getting a loan – and approving one, in the case of lenders – is a huge hassle, from compiling all the financial documentation you need, too often multiple rounds of consultation.

Open banking has the potential to disrupt and streamline the loan approval process since it can aggregate the financial data of loan seekers into one place, so a decision can be made that takes into account the whole financial picture, instantly.

This not only increases the efficiency of the loan approval process but its fairness of it, too, since the entirety of an individual's financial data can be used to make the decision.

IS OPEN BANKING SAFE?

Because banking customers don't need to share their login details to use open banking, this typically makes financial services, platforms, and apps that use this technology more secure than the alternative.

As the world becomes increasingly connected – particularly in the world of finance – open banking presents a slightly elevated risk for data breaches and hacking, because of the interconnectivity of networks between financial institutions. However, security is a top priority for those who facilitate this integration.

Financial service providers making use of open banking must meet high security and fraud prevention standards among others to ensure their customers' data is protected.

In Europe, providers must be registered with national regulatory bodies to provide such financial services, and across the world, more regulation is being implemented to maximise the safety of using financial services powered by open banking.

It's worth noting that you'll always be asked for consent for your financial data to be shared through open banking – and you can revoke this consent at any time.

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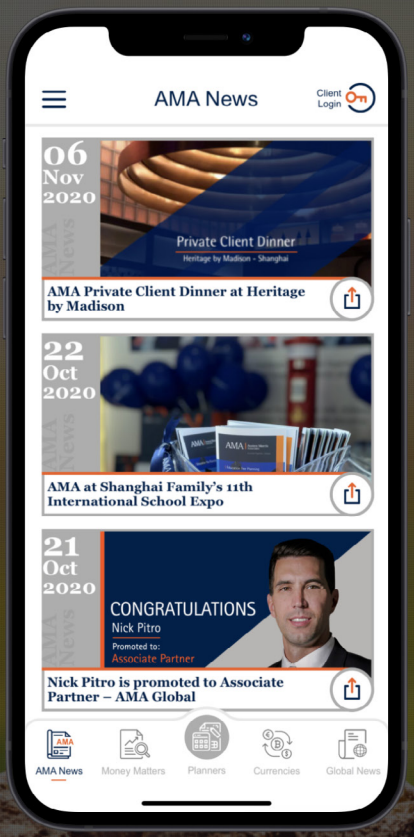

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