SAFETY ▪ STRENGTH ▪ STABILITY

UNIT TRUST CORPORATION

ADVISORY SERVICES DEPARTMENT

Newsletter

www.ttutc.com/advisory-services

Q2 2019 | Issue 18

HOW TECHNOLOGY IS TRANSFORMING THE FINANCIAL SECTOR

The world is evolving and with technology at the forefront, it has been termed the digital revolution. It started with one fundamental idea the internet – and has progressed with sweeping changes brought about by digital computing and communication technology. It is all about transforming and evolving the present for a better future, which has resulted in dramatic changes to the way businesses operate and deliver products to consumers in many sectors.

As technology changes, so too do the industries that use it. Virtually every industry has been experiencing rapid, massive, and sometimes devastating change.

Mobile devices and apps are piloting major industry shakeups as they make their way into new markets or change the way people interact with a market. Just look at the impact Airbnb has had on the hospitality industry and Uber and Lyft have had on the transportation industry.

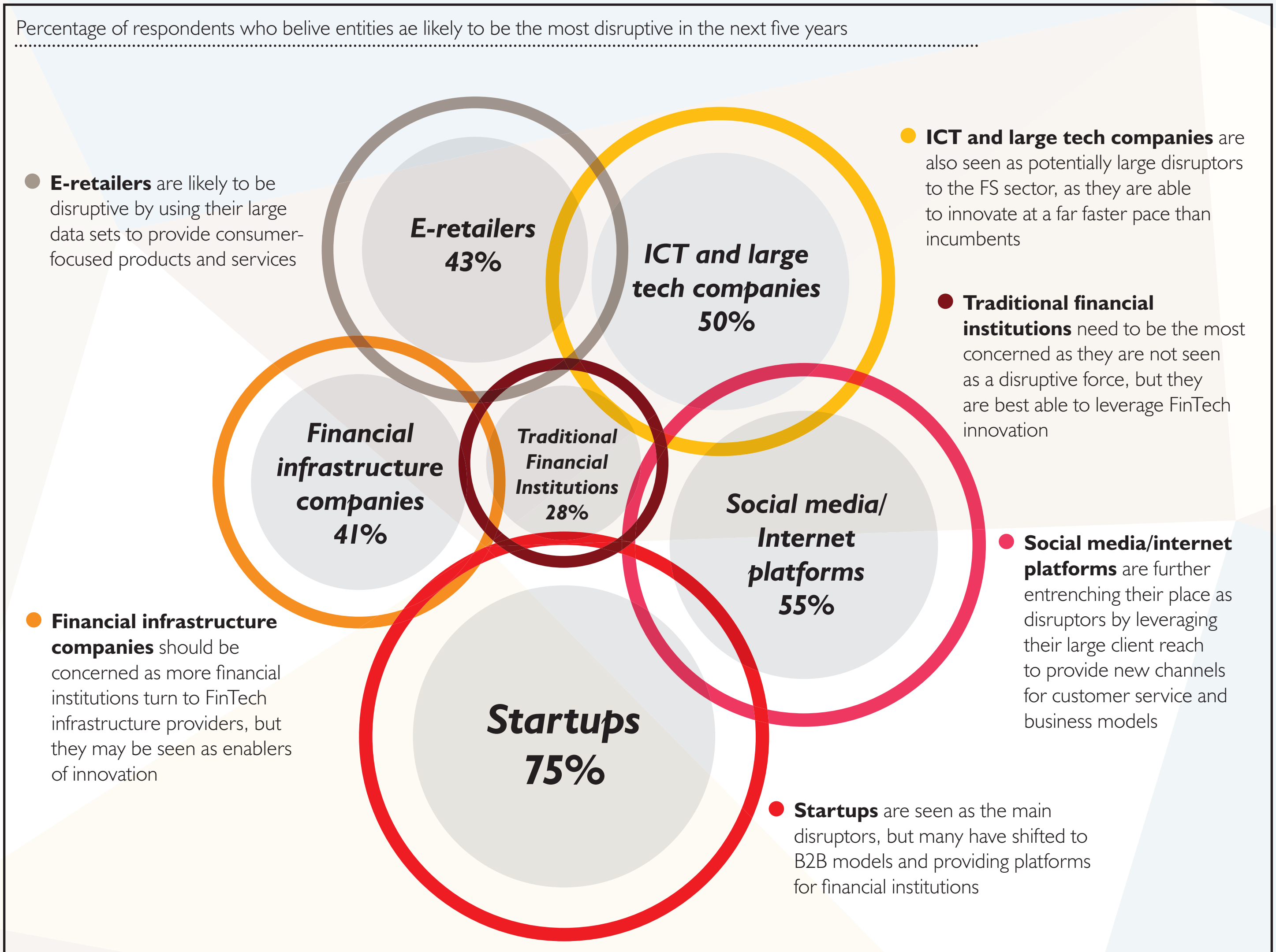
FinTech

The impact can also be seen in the Financial Sector. The term FinTech has been coined as an abbreviation for Financial Technology. It primarily refers to banks and financial institutions looking to make full use of available hardware and software capabilities; as well as refers to the systems themselves.

PwC's Global FinTech Report 2017 highlights that the pace of change in the Financial Services Sector seems only to be increasing, stating that 77% of financial institutions will increase internal efforts to innovate, with many businesses embracing the disruptive nature of FinTech to help improve customers' experience.

PWC's survey also highlighted that FinTech has evolved to a broader ecosystem of different businesses and innovation is being driven by a variety of sources including tech companies, e-retailers and social media platforms. Figure 1 shows the percentage of respondents who believe entities are likely to be the most disruptive in the next five years.

Figure 1: FinTech and disruptive entities



Source: PWC Global FinTech Survey 2017

In order to compete in the evolving digital world, businesses need to be willing to be innovative in order to stay in touch with their ever-changing client base. They will need to create outstanding value for customers by efficiently processing great volumes of information, and subsequently transforming that information into deeper insights faster than ever.

Perhaps the biggest way that FinTech is disrupting the financial sector is through customer service. Excellent customer service has always been an important part of the foundation of any company that handled money or financial matters as staff needed to be trained and competent in providing prompt and accurate assistance to customers. This is changing as chatbots – Artificial Intelligence (AI) which evolves and gets smarter – are rapidly becoming normal for customers to interact with. However, AI has its limitations as it lacks the human touch and poses a growing threat to job security as it minimises the need for human support.

Digital disruptors are transforming how business gets done. Deloitte conducted a study with finance professionals about technology and the opportunities for growth. Their research shows that technologies that have a growing relevance in the financial industry can be disaggregated into two main categories: Core Modernisation which focuses on updating of the core systems and existing capabilities and Exponentials which

are designed to deliver new and different capabilities. Figure 2 shows the digital tools designed to deliver new and different capabilities to finance.

Figure 2: Digital tools designed to deliver new and different capabilities to finance

Digital tools designed to deliver new and different capabilities to finance

Core modernization

Cloud
Cloud is a kind of computing that uses scalable, elastic technology to deliver services over the Internet. Instead of making large investments up front, finance can get the full stack of finance functionality "as-a-service," delivered through public, private, or hybrid clouds.

Process robotics
Process robotics automates transaction processing and communication across multiple technology systems. Robots perform recurring processes just like humans, but with less risk of errors and fatigue.

Visualization
Visualization refers to the innovative use of images and interactive technology to explore large, high-density data sets. Visualization suites complement business intelligence and analytics platforms, offering rich graphics, interactivity, and usability on par with leading consumer experiences.

Exponentials

Advanced analytics
Analytics has long been part of the finance arsenal, but new techniques are helping business people tackle the crunchy questions with insightful answers. Often that means combing through big data to see patterns that suggest future opportunities.

Cognitive computing
Cognitive computing and artificial intelligence (AI) simulate human thinking. This technology includes machine learning, natural language processing, speech recognition, and computer vision.

In-memory computing
In-memory computing refers to storing data in main memory to get faster response times. And because the data is compressed, storage requirements are reduced. The result? Speed and access to quantities of data that were previously unimaginable.

Blockchain
Blockchain is a digital distributed ledger, where transactions are verified and securely stored on a network of distributed and connected nodes, without a governing central authority.

Source: Deloitte – Crunch time, Finance in a digital world

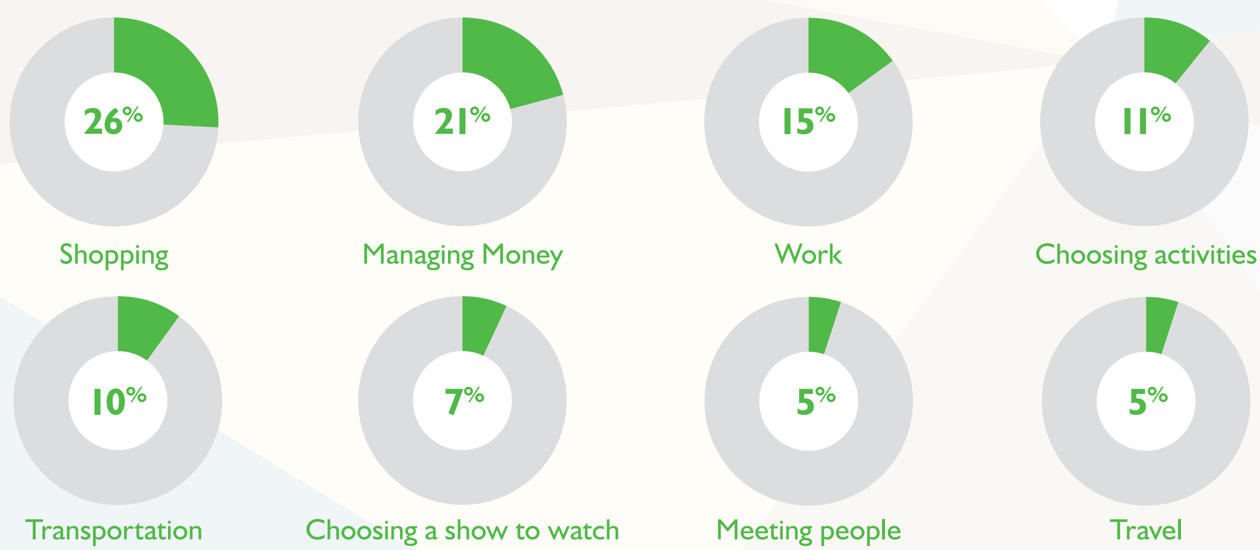
These technologies are moving the financial services industry in new directions quickly. Banks, lenders, credit card companies, and financial planners alike are all hurrying to catch up. One thing is for certain. Fintech is here to stay, is growing rapidly, branching in numerous directions, and is not slowing down.

Impact on Investing

With the advent of FinTech, technological advances are converging to the point where they have the ability to significantly make personal finance and investing easier. New solutions are being created to address some of the unnecessary pain points thereby making investing easier and more accessible. These innovations can greatly reduce the time it takes while simultaneously creating a more comfortable future.

TD Ameritrade, a broker that offers an electronic trading platform for financial assets, surveyed 1,000 American investors. The results highlighted that technology is fundamentally changing the relationship with money. When asked about where technology has had the greatest impact on their daily life compared to three years ago, the second highest response (21%) was how they manage their money. Figure 3 shows the impact technology has on everyday life.

Figure 3: Technology's impact on everyday life



Source: TD Ameritrade – The Tech Effect: How the Digital Age Is Changing Investing

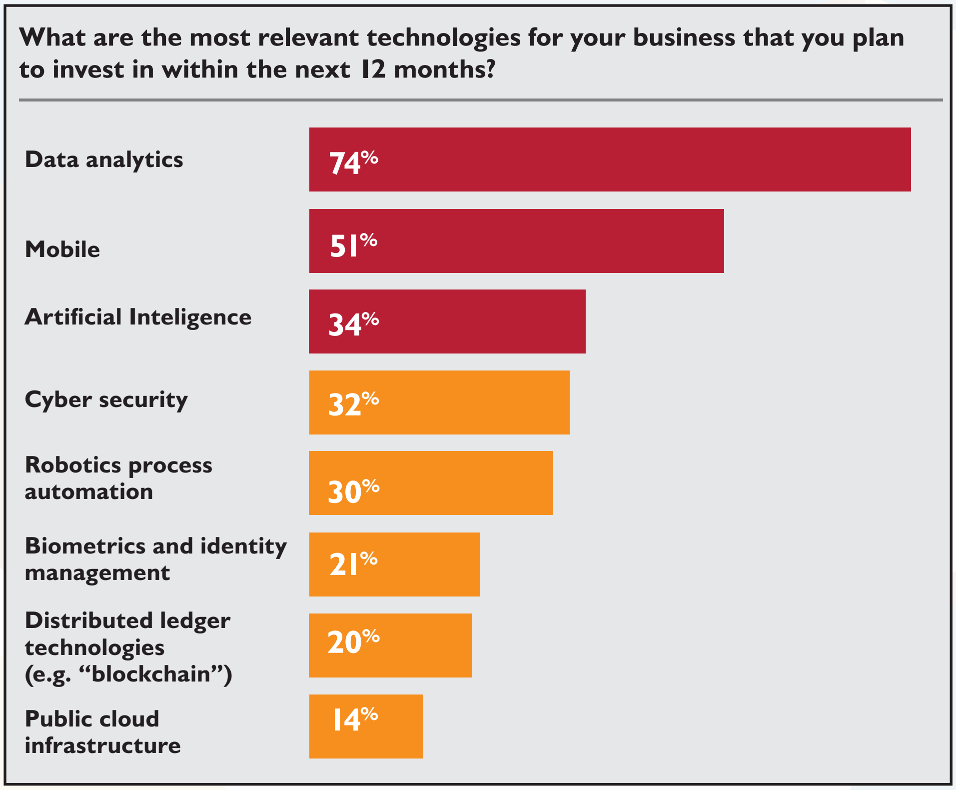
The overall findings of the report show that investors appreciate and want technology in their lives as it makes some of their favorite activities possible and if it can make their lives easier, they want it. Additionally, they are excited to try new technologies, with about half being early adopters.

Investors' expectations about how they interact with their finances will also be impacted as technology is ingrained into everyday life. Currently, consumers are comfortable with companies offering personalised suggestions using AI and machine learning based on past behaviour. Netflix recommends shows based on previous viewing habits and uses past purchases and searches to make recommendations. Most people consider this a relatively good thing. In turn, from the investors surveyed, more than three-quarters of the respondents were completely fine with technology using previous behaviours and information about them to make recommendations. Additionally, more than half found that recommendations based on their past behaviours would be useful.

It is clear that soon people will want a financial navigation system that provides them with a holistic picture to help guide them through every phase of their lifetime allowing them to achieve their financial goals one step at a time. Their relationship with the financial sector should be seamlessly integrated into their everyday life, allowing them access to information and support at any given moment through an electronic device.

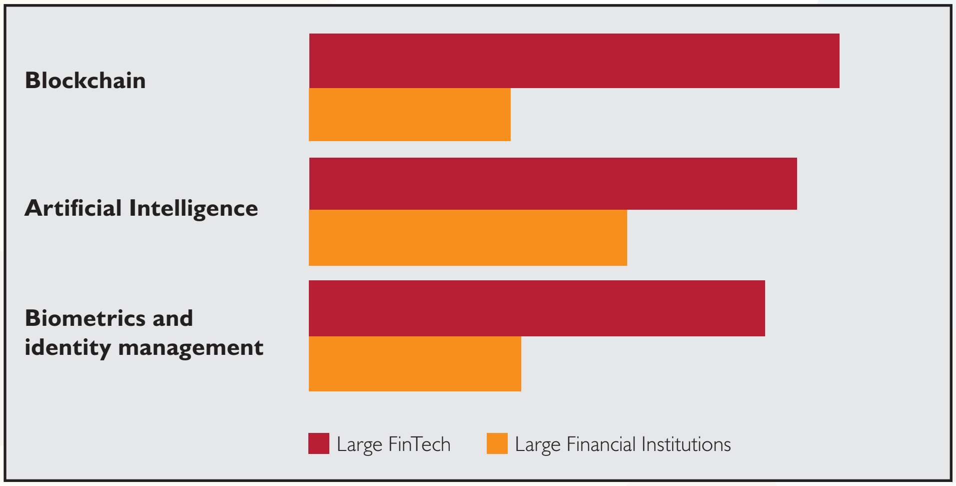
FinTech companies are driving market changes by focusing on emergent technologies that will provide a renewed experience for their customers. Figures 4 and 5 respectively show the technological areas that financial intuitions are currently investing in to update their existing systems and the emerging technologies they consider to be the most relevant to invest in.

Figure 4: Technological areas of investment



Source: PWC Global FinTech Survey 2017

Figure 5: Focus on emerging technologies



Source: PWC Global FinTech Survey 2017

For more in-depth reading, see links below for the reports referenced in this newsletter:

PWC Global FinTech Survey 2017
https://www.pwc.ch/en/publications/2017/Global_FinTech_Report_2017-Redrawing_the_lines-CH.pdf

Deloitte – Crunch Time, Finance in a Digital World
https://www2.deloitte.com/ch/en/pages/finance-transformation/articles/finance-digital-transformation-for-cfos.html

TD Ameritrade - The Tech Effect: How the Digital Age Is Changing Investing

Investment Checklist

If you are considering diversifying your portfolio and adding some FinTech investments, there are numerous options for you to choose from, but it can sometimes be quite overwhelming. When selecting investments in this field, you should do ample research and consider the following items along with the usual investment factors such as its alignment to your financial goals and your risk tolerance:

1. **Don't limit your investments to prominent technologies**
   Many investors think that only the prominent emerging technologies, such as AI and blockchain, will be the best investment. Even though this might be true, there are other potential avenues that you can consider. A great example is wireless energy, which experts think is likely to grow rapidly in the future.

2. **Technical viability should not be the only criteria**
   Not all technological advances are applicable to every industry. It is important to consider the relevance of the specific technology to the industry for which it is being developed. You should not only rely on technical analysts and third-party research because they tend to focus merely on technical viability. You therefore need to do your own research to create a comprehensive technology investment strategy.

3. **Assess the potential of technologies in business terms**
   You need to ascertain how the technology will create value. Not every idea will be successful. The business should be able to explicitly indicate how it will be able to solve real-world problems and challenges by increasing operational efficiency, brand recognition, and how it will positively impact their customers.

Mail: Ms. Karrian Hepburn
Vice President – Sales and Service
c/o UTC Advisory Services
3rd Floor, UTC Financial Centre
82 Independence Square
Port of Spain

Tel: 624-8648 Ext. 3015

Email: yourwealthmanager@ttutc.com

www.ttutc.com/advisory-services

About the Advisory Services Department

The Advisory Services Department of the Trinidad and Tobago Unit Trust Corporation was established to serve our valued clients seeking financial and investment advice and solutions from a trusted service provider. We will assist you in enhancing your personal wealth and financial well-being by providing you with financial counselling, investment advice and solutions.

Partners for Life