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PERSONAL FINANCE

TECHNOLOGICAL DISRUPTION AND ITS FINANCIAL IMPACT

Technology is a wonderful thing. It has transformed the way we live, how we travel, how we communicate and just about every aspect of our lives. It is wonderful - until something goes wrong. It could be the automatic barrier on the toll road, the Internet connection or worse, a complete global failure of the computer system as experienced by British Airways recently which grounded planes and disrupted flights for many days. But perhaps the biggest impact of technology is how it affects people's livelihoods. It has made some people rich but has also made others very poor.

'Technological disruption' is a term that has only recently crept into our vocabulary although the phenomenon has been around for centuries. Perhaps the invention of the wheel was one of the earliest examples. Its efficiency must have displaced thousands of labourers who previously would have laboured to carry objects from A to B. In modern times we are seeing technological disruption at an alarming rate. Examples would be video and audio streaming which have caused havoc in the music industry. Then we have e-mail which has revolutionised communications and all but eliminated the centuries-old tradition of writing and posting letters. The President of the USA can now communicate instantly with millions around the world by means of a single, cost-free 'Tweet'. How much would it have cost and how long would it have taken a century ago to send the same message to the same number of people?

Technological disruption is now happening so fast that gadgets we used just ten years ago now appear outdated if not ancient and no doubt the same will be true for things we use today in another ten years' time. All this is a tribute to the great ingenuity of the human race. Many fortunes have been made. But progress has come at a cost to many, the most obvious one being the millions of jobs that have been lost along the way. What has happened to all the typists, the newspaper compositors, the sales staff who sold records or other outdated products, the toll road employees who have been replaced by automatic gates, not to mention chimney sweepers?! The fact is their lives were 'disrupted'. Some will have found other jobs; many who could not adapt to change have undoubtedly suffered financial hardships. But job losses are not the only factors that have disrupted lives; many other things have changed that have turned the principles of financial planning upside down.

The standard seven life 'stages'

Decades ago when looking at financial planning we would see the journey of life as a series of stages, namely:

- Early childhood
- Higher education
- Single adulthood
- Married with young family
- 'Empty nest'
- Retirement

We could plan with a reasonable degree of certainty that we would follow the above path and would therefore build our financial plans around the different stages.

Invariably financial planning questionnaires would ask 'At what age do you plan to retire?' In my experience I have found that people in their 20's or 30's would likely indicate an age between 50 and 60. Those in their 40's would be more likely to indicate 65 while many in their 50's and already in their 60's now admit they don't know when they can afford to retire! In many cases this is because the seven life 'stages' did not work out as planned. Something happened along the way that threw the financial plans off the track.

What are the causes of this 'disruption'?

They are many-fold, but here are some of the unplanned events that can derail the best of plans:

- Death or critical illness of a family member.
- Divorce. In many western countries most marriages now end in divorce. This can have a devastating impact on financial plans.
- Remarriage. A twist to the previous point; most divorces end in marriage!
- Linked to the last point, remarriages often entail taking on responsibility late in life for the children of a new partner.
- Disruptive technology. We can no longer assume that our chosen skills or professions will be needed for a lifetime.
- Business failure. The commercial world is dynamic and a business that is successful one year can collapse the following year due to competition or a myriad of other factors, including once again technological advances.

How can we plan for these 'unplanned' events?

The fact is we never know what is around the corner. We don't want to go through life worrying about it but it is only sensible to recognise that things can go wrong. However, with a little bit of planning the impact of unforeseen events can be mitigated. We should still base our 'core' planning on the seven stages of life but at the same time make some provision for the unexpected. These are some of the measures that we can take:

- A very basic one is of course insurance. This should include medical insurance for the whole family, life and critical illness insurance for the breadwinner and spouse. According to a British insurance statistic one out of every three persons will experience a critical illness (such as heart attack, stroke or cancer) before the age of 65. Don’t wait until something goes wrong; by then it is too late.
- Don’t be over-ambitious when committing to a long term savings plan. You may have a secure job and profession today but your skills could be outdated or surplus to requirements in a few years’ time. Choose an a savings amount you can confidently maintain.
- Consider having separate rather than joint savings plans. Joint plans can be difficult to separate when people split up.
- Always keep ample cash reserves in the bank. There may be little or no return but access to cash could be critical if anything goes wrong.
- Review how much you are spending and how much you are saving. All the statistics indicate that people are spending too much and not saving enough for the future. Even if you are fortunate enough to go through life in line with the seven stages you may not have enough to ensure a comfortable retirement. And if your life is disrupted by unforeseen events you could be in serious trouble.

Finally, invest in yourself!

You are your greatest asset! Keep investing in it by devoting time to improve your skills, become more qualified in your profession and at the same time learn other skills. Do an inventory of your knowledge, skills and ambitions and identify other potential avenues of employment should your present job disappear. There is a mine of information on the Internet. If you have the time and determination consider distant learning courses.

As for me, my job too could disappear (as did my previous one). ‘Millennials’ are now trawling the Internet for ‘Roboadvice’ rather than turning to a financial adviser. So I may have to consider another career change. I once held a pilot’s license and quite like the idea of training to become an astronaut. Unfortunately, age might be a limiting factor.

Colin Bloodworth, *Chartered Member of the Chartered Institute for Securities and Investment (UK), has spent over 20 years in Indonesia. If you have any questions on this article or related topics you can contact him at colin.bloodworth@ppi-advisory.com, colin.bloodworth@yahoo.co.uk or +62 21 2598 5087.*