Analysis of the Causes of Financial "Disenchantment" and Future Prospects

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Abstract. This study aims to deeply explore the causes behind the phenomenon of financial "disenchantment" and provide an outlook for its future. The research combines data analysis, literature review, and case studies, identifying key factors contributing to financial disenchantment, including the tightening of financial regulations, the impact of macroeconomic cycles, and overcapacity caused by insufficient domestic demand. The findings indicate that, in a highly disenchanted financial environment, professionals must demonstrate higher levels of expertise and innovation, alongside fostering deep industry innovation. This study offers strategic suggestions for the financial sector to respond to change and plan its transformation. It provides valuable references for addressing employment challenges in the finance industry and promoting its healthy development.

Keywords: financial disenchantment phenomenon, financial employment, financial market transformation, industry innovation strategy

1 Introduction

After more than two decades of rapid development, China's financial sector has entered a deep phase of reform, marking the transformation and reshaping of an era for the financial industry. Does this transformation signify that the financial sector will shrink and become a marginal player in the progress of the times? In recent years, the allure of the financial industry seems to have gradually dissipated, drawing widespread attention and reflection. The core objective of this study is to explore the causes behind this "disenchantment" phenomenon, address the employment concerns of financial professionals in this context, and investigate the future development prospects and transformation paths of the financial industry. Structurally, this paper first provides an overview of the financial "disenchantment" phenomenon and its manifestations. It then delves into the multiple reasons contributing to this phenomenon. Next, the paper discusses the strategies and transformation directions for financial professionals and institutions in the face of a highly "disenchanted" financial environment. Finally, the study summarizes its main findings and offers an outlook on the future development of the financial industry, providing readers with a clear framework for understanding the

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various aspects of financial disenchantment and offering insights into the future of the industry.

2 Overview of the Financial "Disenchantment" Phenomenon

First, we need to understand what "disenchantment" refers to. Generally, disenchantment signifies the dissolution of the mystique or allure surrounding science and knowledge. By extension, it can also indicate skepticism or challenges to notions of grandeur, refinement, or metanarratives in cultural attitudes[1].

In essence, finance matches funds with projects. Today, the industry's hierarchy is viewed from the top down: hedge funds face mass layoffs and high stress; private equity (PE) and venture capital (VC) firms struggle with fundraising; investment banks encounter a shortage of high-quality projects; consulting firms focus on cost-cutting and have limited budgets; banks have significant deposit targets that do not align with household income expectations; insurance companies vary greatly in quality, and the entry of banks into the insurance space has squeezed the survival of traditional agents. Even the "Big Four" accounting firms, once seen as stepping stones due to the quality of their recruits, are no longer as highly regarded. In recent years, the financial industry has undergone significant changes, and its appeal has gradually diminished.

Furthermore, disenchantment in the financial sector is more directly manifested in salary reductions. Finance, as a mechanism for the allocation of social resources, has historically played a critical role in society's distribution of wealth. Financial institutions, primarily operating under market-driven models, are expected to be more efficient than government mechanisms, justifying higher pay. However, with policies now pushing for financial services to prioritize the real economy, capital allocation has shifted from favoring financial institutions to favoring the needs of the real economy. Consequently, the financial sector's status has declined, and compensation levels have adjusted downward accordingly.

In the short term, the financial sector's growth momentum seems to have slowed, and the once prominent halo of financial elites has temporarily dimmed.

3 Analysis of the Multiple Factors Leading to the Financial "Disenchantment" Phenomenon

3.1 The Era of Increased Financial Regulation

Since the establishment of the National Financial Regulatory Administration in 2023, there has been a noticeable trend toward strengthening financial regulation. Internal and external audits, inspections, and reporting requirements have become increasingly frequent. Financial prosperity can no longer overshadow the real economy and must prioritize serving it by empowering it fully. Banking, securities, and insurance sectors are being operated separately[2]. Finance is now expected to appear in the public eye with greater transparency, simplicity, and accessibility, reducing the reliance on complex financial instruments and specialized knowledge. The goal is to increase public trust and participation in the financial system by enhancing transparency and lowering complexity, thus making finance more equitable and inclusive.

However, while these measures aim to purify the financial environment, they are also placing tremendous pressure on small and medium-sized financial firms, including brokerage firms and banks that lack competitive strength. If these institutions fail to adjust their business strategies and management structures in time to adapt to market changes, they will likely face mergers, restructuring, or bankruptcy.

3.2 The Impact of Macroeconomic Cycles

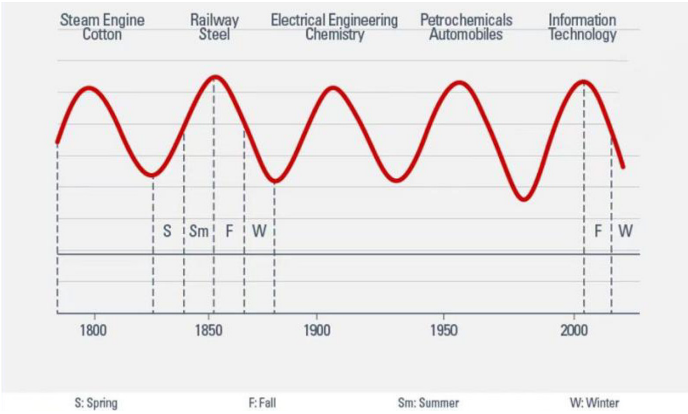

Fig. 1. Kondratiev wave

Finance is a highly cyclical industry, constantly fluctuating with the level of societal and economic development. Finance empowers industries by providing funding, and its historical role is irreplaceable. Every breakthrough in technological revolutions has relied on financial support. For example, Colombia discovered the New World through bond issuance, and the United States built its railroads through stock offerings.

Why does everyone say the market has been performing poorly in recent years? Russian economist Nikolai Kondratiev proposed the Kondratiev wave (or K-wave) theory[3], as illustrated in Figure 1. This is a natural economic adjustment process that posits a 50- to 60-year cycle in advanced commodity economies. Each K-wave consists of four phases: expansion, stagnation, recession, and recovery. Over the past 200 years, the world has gone through four K-waves. Due to the overstimulation of global debt-driven economic growth, we are currently in the recession phase of the fifth K-wave. Does this mean we will face a prolonged period of economic downturn? Each recovery phase of the previous K-waves brought revolutionary innovations, such as textile and steam technologies, steel and railroads, electricity and heavy industry, and automobiles and computers. The current phase of the fifth K-wave is expected to bring about the information technology revolution, which could include innovations in areas such as artificial intelligence or new energy technologies. The K-wave predicts that this recession phase will last from 2015 to 2025. To move quickly out of this phase, humanity has been searching for solutions, and during this process, we encountered severe challenges such as the COVID-19 pandemic. In 2024, we are at a critical juncture of this cycle. While economic cycles are inevitable, but humans do not have the luxury of youth twice. We must prudently address current economic challenges to seize opportunities in the upcoming recovery phase.

3.3 Overcapacity and Insufficient Domestic Demand

In addition to the global macroeconomic downturn, another key factor is the lack of sufficient domestic demand. After 45 years of reform and opening up, China's economy has shifted from high-speed growth to high-quality development. This brings attention to the bursting financial bubble in the real estate sector. In China, between 50% and 70% of household wealth is tied up in real estate. Compared to developed countries globally, China's housing prices are unreasonably high. A single property can require the savings of two generations. Real estate developers and local governments have benefited financially, with the latter using land sales revenues for infrastructure development and redistribution. This has created an appearance of a virtuous cycle between real estate and the broader economy. However, as urbanization has largely been completed and the expansion efforts of real estate developers have exposed numerous issues, the bursting of this financial bubble has become inevitable.As household expectations for real estate income shrink and mortgage pressures rise, along with the disappearance of the demographic dividend, wage cuts in low-end manufacturing, and increasing retirement pressures due to lower birth rates, residents are becoming more reluctant or unable to consume. In an era of overcapacity, companies must remain clear-headed and make prudent decisions to reduce homogeneous competition and secure a stable position in a winner-takes-all environment. On an individual level, professionals need to continuously improve their skills, stay informed of industry dynamics and market demand, and remain adaptable in a complex and ever-changing economic environment, seeking new opportunities for growth.

In summary, the financial "disenchantment" phenomenon is the result of multiple interacting factors. The onset of an era of increased financial regulation has heightened operational pressures on small and medium-sized financial companies. The impact of macroeconomic cycles has placed the financial sector under the stress of economic downturns, while overcapacity and insufficient domestic demand have further exacerbated these challenges. These intertwined factors collectively intensify the occurrence of this phenomenon.

4 Strategic Recommendations and Future Prospects in the Post-"Disenchantment" Financial Era

In the current state of financial "disenchantment," professionals in the financial sector must demonstrate higher levels of expertise and innovation, and pursue deep industry innovation to adapt to the complex and evolving landscape.

4.1 Optimization of Financial Professionals and Institutions

4.1.1 Enhancing Professional Expertise and Precision in Innovation. For professionals, rapidly improving their expertise is the foundation for enhancing competitiveness. In today's fiercely competitive financial market, financial professionals must first master a broad range of economic theories and enhance their expertise in areas such as market analysis, risk assessment, and asset allocation. According to data from the CFA Institute, by the end of 2023, there were more than 150,000 CFA charterholders worldwide. This not only reflects the growing emphasis on professional qualifications in the financial industry but also indicates the need for professionals to continuously improve their skills. Additionally, finance is increasingly empowering various industries, so professionals need to acquire interdisciplinary knowledge in fields like information technology and mechanical engineering. With the advent of the Internet of Things, the digital transformation of finance is imminent. China has already established interdisciplinary majors such as FinTech and Financial Engineering, where students are equipped with advanced skills in mathematical modeling and data analysis. This provides innovative career guidance for financial professionals, who will have strong competitive advantages in coding-intensive finance areas such as derivatives, quantitative finance, and actuarial science.

4.1.2 Refining Customer Service and Building High-End Brands. According to the China Securities Industry Association, as of July 24, 2024, there were 78,351 registered investment advisors in China's securities industry, with 21 brokerage firms each employing over 1,000 investment advisors. This data reflects the increasing demand for precise investment advice, making investment advisory services a key area of focus for the industry[4].

Additionally, building high-end brands is another crucial aspect of institutional professionalism. This concept involves the customization of financial services through data, such as using AI models to tailor investment advice for different clients. Satisfaction surveys from multiple research institutions show that organizations offering personalized services through data analysis see a 20% increase in customer satisfaction on average. Data has become an essential resource for financial development, revealing the enormous potential of data-driven financial services and providing a new approach to brand building for financial institutions. In the future, more financial institutions will continue to leverage big data to empower traditional finance, deeply understand customer needs, and provide more refined, personalized services. This concept also involves shaping and promoting brand culture. Corporate culture is not only the best embodiment of a company's vitality but also a key factor in attracting and retaining customers. In the current economic downturn, financial institutions should focus on a customer-centric corporate culture, offering professional, sincere, and comprehensive services. Gaining customers' trust and creating a unique customer experience is essential for investment banks to secure high-quality projects and for banks to attract more deposits. Externally, institutions should actively use various methods to promote their brand culture, such as advertising, social media marketing, public relations events, or forming brand alliances with other industries to share resources, promote each other, and expand their market influence.

The optimization of professionals and institutions is key to the transformation and upgrading of the financial sector. Professionals need to continuously improve their skills and acquire interdisciplinary knowledge to adapt to the digital transformation of finance. Financial institutions should focus on providing refined customer services and building high-end brands to enhance their market competitiveness. The collaboration between professionals and institutions, through resource sharing and complementary advantages, is crucial in navigating industry changes. For example, in March 2024, Ant Group collaborated with several universities, including Shanghai University of Finance and Economics and Shandong University, to establish the "Financial Artificial Intelligence Frontier Lab." This partnership focuses on deep research in cutting-edge technologies such as artificial intelligence and large models, promoting the development of intelligent finance while cultivating interdisciplinary talent. This combination enhances Ant Group's overall competitiveness and opens new career opportunities for students.

4.2 The Future Integration of FinTech and Green Finance

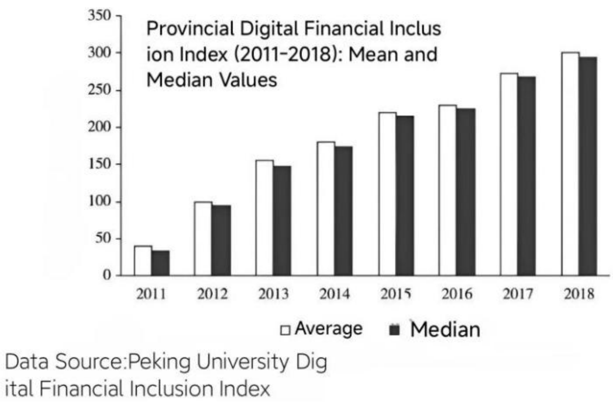

Fig. 2. Digital Financial Inclusion Index

The Digital Financial Inclusion Index from Peking University (Figure 2) shows that from 2011 to 2018, China made significant progress in digital financial inclusion[5]. The median provincial digital finance inclusion index grew at an average annual rate of 36.4%, demonstrating the rapid development of digital finance in China. According to the People's Bank of China's "2023 Report on the Payment System," China processed 542.6 billion non-cash payments in 2023, up 17.28% year-on-year, with a total transaction value of RMB 5251.3 trillion. Of these, 296.1 billion transactions were handled electronically, with mobile payments accounting for 185.1 billion, representing a year-on-year growth of 16.81%. In 2023, the People's Bank of China's Clearing Center processed 21.98 billion payment transactions, with a total value of nearly RMB 9,000 trillion, representing year-on-year growth of 4.03% and 13.91%, respectively. On average, over 60 million transactions, worth more than RMB 35 trillion, were processed daily. These data points clearly demonstrate the significant success of FinTech in improving the convenience and efficiency of financial services, and they signal that FinTech will become a key tool for transforming and upgrading traditional finance. As technology continues to advance, FinTech is expected to drive the financial industry towards a more efficient and intelligent future.

On the other hand, green finance has become a hot topic in the financial industry. In 2021, the green bond issuance index in Beijing exceeded 0.14, while the green investment index reached 0.072. Similarly, in Shanghai, the green bond issuance index reached 0.15, and the green investment index hit 0.078. China’s green finance development is now among the world’s leaders. According to estimates from the Energy Foundation and other partners, China's green low-carbon investment potential over the next 30 years could reach between RMB 140 trillion and RMB 200 trillion. This trend reflects substantial changes and developments in the real economy’s technology, resources, demand, and industries. It also underscores China's increasing emphasis on sustainable development, presenting new opportunities for the financial industry.

The deep integration of FinTech and green finance will also be a major direction for the future development of the financial industry. By leveraging FinTech tools such as big data and artificial intelligence, financial institutions can more accurately assess the risks and returns of green projects, improving the efficiency of green finance investments. FinTech also helps green financial products and services reach their target customer base more effectively, thereby expanding their market impact. Looking forward, as technology continues to evolve and new application scenarios emerge, the integration of FinTech and green finance is expected to drive the financial industry towards a more sustainable, efficient, and intelligent future, bringing greater value to both the real economy and society.

In the future, even though traditional finance faces unprecedented challenges, we believe that the emergence of new financial models will continue to empower the transformation and upgrading of the financial industry, injecting powerful momentum into the sustainable development of society.

5 Conclusion

5.1 Summary of the Current Situation

In this era of rapid change, traditional finance is facing significant challenges, and financial "disenchantment" seems inevitable. This paper systematically analyzes the multiple factors behind this phenomenon, including changes in the regulatory environment, technological impacts, and shifts in consumer demand, all of which are collectively driving the transformation of the industry. The mystique of finance is gradually fading, becoming more integrated into the daily lives of individuals.

5.2 Future Recommendations and Outlook

Although this study has made some preliminary contributions to understanding the financial "disenchantment" phenomenon and its causes, there are still several limitations and unresolved issues. Specifically, challenges such as the delayed regulation of financial technology, the protection of personal privacy and assets, and the generally low financial literacy of the population all pose obstacles to innovation and reform within the financial industry. Future researchers will need to delve deeper into these challenges and propose breakthrough solutions.

Financial "disenchantment" does not signify decline; it is merely a cyclical change. As we approach the recovery phase of the fifth Kondratiev wave, we have already detected new directions, heralding a more open, diverse, and innovative era for finance. Both professionals and financial institutions should maintain an open mindset and adopt innovative thinking to plan their transformation, assess the situation, and actively respond to the changes. In doing so, finance will return to its fundamental role of serving the real economy and society, and together we will embrace a new spring for the financial industry.

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