

# IMPACT OF RAAST AND ROSHAN DIGITAL ACCOUNT - A GAME CHANGER FOR MUTUAL FUND INDUSTRY

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Roshan Digital Account (RDA) and RAAST both are key initiatives from State Bank of Pakistan (SBP) to enhance and promote digitalization in Pakistan. One focuses on providing seamless digital solution for non-resident Pakistanis to open bank account in Pakistan and the other is a state of art service for making instant payments digitally with no cost whatsoever for public with hassle free and quick registration process which is set to change the payment landscape in Pakistan.

## **Roshan Digital Bank Account:**

Every Pakistani living abroad has a connection to Pakistan. Whether it is their family who are still living in Pakistan or the plan to come back to homeland and spend a comfortable retired life with family members, the connection remains due to one reason or the other.

Roshan Digital Account is a major initiative of SBP, in collaboration with commercial banks operating in Pakistan. SBP has provided Non-Resident Pakistani (NRPs) with a channel to stay connected with the country's growth potential. NRPs living abroad can make gains over time by managing their fund accordingly and build on their wealth. Whether it is to diversify their investments or achieve improved returns, RDA enables such customers to achieve the same.

NRPs can digitally open a bank account in Pakistan through an online process without any need to visit Pakistan. Opening of the account requires only a basic set of information and documents which can be uploaded in digital form.

Funds available in the Roshan Digital account can be remitted back from Pakistan without any approval from one's bank or SBP. This is one of the key benefits as previously NRPs were reluctant to invest in Pakistan due to excessive regulatory requirements and complex procedures for repatriation of funds.

## **Investment in Mutual Funds Through Roshan Digital Bank Account**

Investment in mutual fund was included in allowable investment avenues for RDA by SBP and process flow was approved by Securities & Exchange Commission of Pakistan (SECP) on February 16, 2021. This provided an opportunity for NRPs to digitally invest in mutual funds using their RDA bank accounts. The process flow which was developed in collaboration with SECP, Central Depository Company of Pakistan (CDC), SBP and Mutual Fund Association of Pakistan (MUFAP) provides an end to end digital mechanism for both opening a mutual fund account and for making investments and redemptions.

NRPs are not required to provide any information or document separately to Asset Management Company (AMCs) for opening of account rather the same information and documents provided to banks for opening RDA bank account are used to open mutual fund account. NRPs are also provided an option to invest digitally through RDA bank's digital channel or AMC's digital channel as per their discretion. Both RDA bank account and RDA mutual fund account are linked to ensure that all inflows and outflows into mutual funds are routed through designated RDA bank account of NRP.

Apart from an efficient digital process of investing and disinvesting, mutual funds offer a diversified range of funds giving investors exposure to stock market, fixed income, money market, commodities and real estate, all under single umbrella. What sets mutual funds apart from direct investments in the said asset classes is the professional fund management, stringent regulatory environment, diversification among other things such as liquidity and transparency.

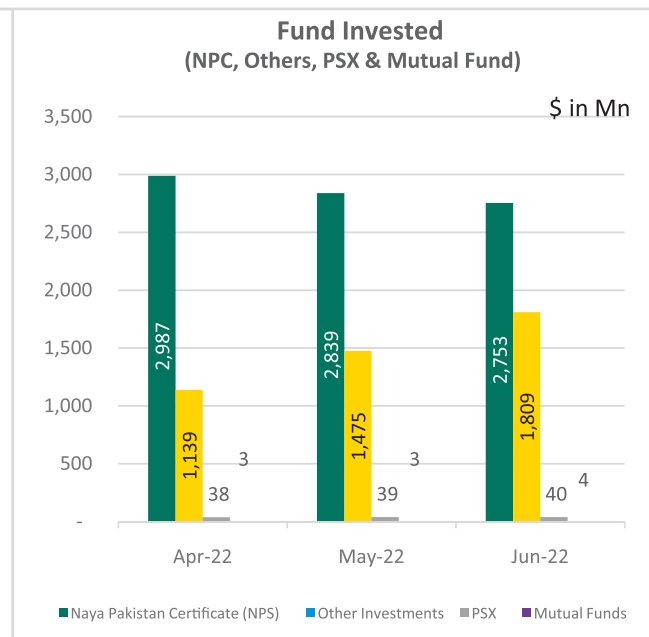
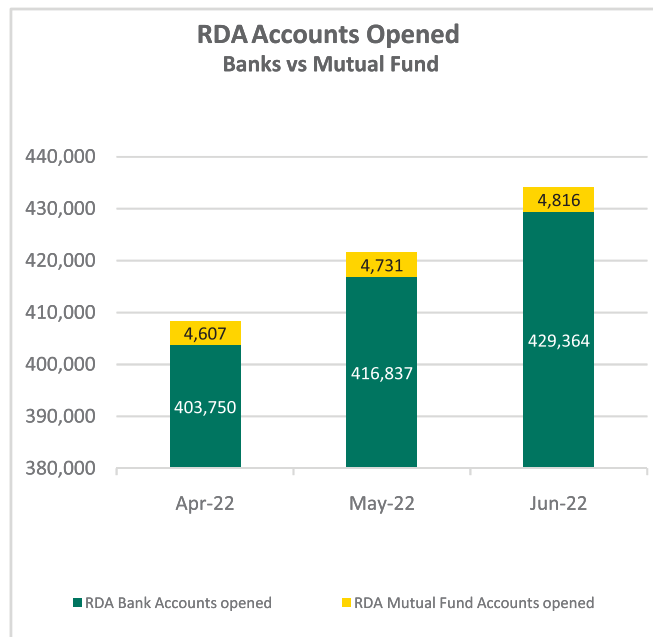


In order to facilitate and encourage investment from NRPs, there are also relaxations from filing tax returns and these investors are treated as 'Filer' for applicable tax deductions. Moreover, they are exempted from providing zakat declaration to avail exemption from the deduction of zakat.

All in all, it is one of its kind investment initiative by SBP & SECP for overseas Pakistanis. However; the investment received in mutual funds through RDA bank account is substantially less than what has been received in other similar investment avenues like Pakistan Stock Exchange (PSX) and Naya Pakistan Certificates. If we refer to below table, we would observe that we as an industry have been unable to effectively market mutual funds to RDA bank account holders.

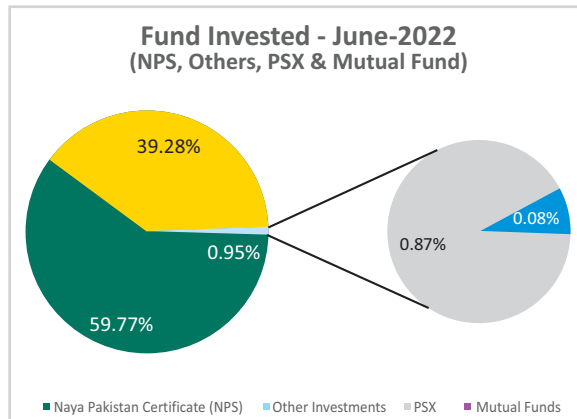
Almost 60% of the funds received from NRPs through RDA are being invested in Naya Pakistan Certificate since it is providing higher returns in dollar terms hence safeguarding customer against any currency devaluation and also have a sovereign guarantee attached to it. This coverage is not available for NRPs investing in other asset classes including mutual funds.

Cumulative Position at the end of each month	RDA Bank Accounts opened	Number of accounts opened in Mutual Fund	Amount received In RDA	Amount Invested in NPCs	Amount Invested in PSX	Amount Invested in Mutual Funds
			(Amount in Equivalent USD Million)			
Apr-22	403,750	4,607	4,167	2,987	38	3
May-22	416,837	4,731	4,356	2,839	39	3
Jun-22	429,364	4,816	4,606	2,753	40	4



However, it has been noted that 40 m USD has been invested in PSX through RDA account which is also at a lower side if we consider the overall picture but it is still 10 times higher than the amount invested in mutual funds. Here, it is also important to note that for investment in PSX, there is a single platform available (CDC) which is integrated with all RDA member banks and acts as an aggregator for all new account opening requests and investment in PSX. Unfortunately, such a single platform is not available for mutual funds and Asset Management Companies are trying to integrate with banks individually which is both time consuming and costly. This is one of the reasons that mutual fund numbers are much smaller than that of PSX. As of today, NRPs can invest in equities through every RDA member bank, however; investment in mutual funds is available through very few RDA member banks who have direct integration with AMCs.





It is also important to note that if we combine investment receive in both PSX and mutual funds, it is less than 1% of total inflows in RDA bank accounts.

Non-resident Pakistanis must be informed, educated and provided with all options to grow their wealth in Pakistan. The responsibility falls on AMCs, CDC and MUFAP to make that happen.

We as an industry should also approach commercial banks as it is also in their benefit. They want to keep the inflows coming over a long period of time and therefore, need to have more offerings. This is where investments in mutual fund will come in handy. People will build portfolios, repatriate profits and transfer money. This will ensure continued banking activity. Dividend payments will also flow into RDAs. In a nutshell, mutual fund investments will ensure sustainable inflows into RDAs.

RDAs can be a game changer for mutual fund industry through collective efforts from all stake holders. As per data from the Bureau of Emigration and Overseas Employment, there are over 12 m Pakistanis residing overseas, which means there is a huge potential for RDAs. The banks, CDC and Mutual Funds must join hands and seamlessly work together to devise and develop smooth processes for account opening and increase accessibility of mutual funds to NRPs to realize this potential. SECP has already exempted banks from obtaining license for selling and distributing mutual fund units (for RDA investors) which should encourage them to connect with CDC or connect individually with AMCs. Further, SBP has also allowed banks to offer investment in Voluntary Pension Funds through their RDA platform. This is another important initiative by SBP in the pipeline through which NRPs can plan for their retirement by investing in approved pension funds in Pakistan. This also has a lot of potential and can contribute in promoting investment in pension funds by NRPs.

### Raast - Instant Payment System

RAAST comes from an Urdu word and means straight or direct. RAAST is Pakistan's first instant payment system that has enabled end-to-end digital payments among individuals, businesses and government entities instantaneously. It provides a cheap and universal access to all players in the financial industry including commercial banks, microfinance banks, government entities and fintechs.

### Mutual Funds payment through RAAST

Trustee of mutual funds and AMCs in Pakistan make payments to investors using traditional methods that requires liaison with different banks individually.

In this regard, Trustees of mutual funds with collaboration of AMCs have lately approached different banks who were offering web services solution to automate the payments in Mutual Funds. In this regard, CDC one of the major trustees with trusteeship of more than 95% of mutual fund has integrated its Fund Management System with the banking systems and developed an architecture of web services which is now live with multiple banks.

A sizeable quantum of payments of mutual funds are now being made through webservice automatically without actual involvement of banks and without having the need to issue payment instructions to banks.

However, with the Web Services solution, there are still multiple key challenges which are being faced by mutual fund industry and are listed below.

- 1) Not all the banks are offering web services which means 100% payments cannot be automated through web services.
- 2) Maintaining web services with individual banks has its own IT and infrastructure cost of maintenance and modification which is not viable in the longer run.
- 3) For IT related development, Banks outsource their development activities therefore any change in its system usually require more time to develop and are costly.
- 4) Transaction cost for executing payments is relatively high through Web Services.

With RAAST, mutual fund industry will have a new channel to make payments to investors of mutual funds. This payment system will result in cost free payments to unit holders upon their redemptions from mutual funds as well as for their dividend payments.

RAAST, being a system solely owned by a single entity, can resolve the above-mentioned issues, following would be major benefits of implementing RAAST:

### **One Window Solution**

By implementing RAAST, Trustee and AMCs will not be required to manage multiple arrangements and connectivity with different banks.

### **No Transaction Charges**

No Transactional based charges will be paid by mutual funds against RAAST payment service as its currently free of charge by SBP.

### **Reduced TAT**

Trustee and AMCs will not have any dependency on banks, for confirmation of the transaction status. Trustee and AMCs can have direct access to the payment system.

### **Fund Collection Against Sale of Units via Raast**

Almost all major AMCs are receiving investments digitally against sale of units but today the arrangement and related work flow is quite complex for both AMCs and investors.

Investor has to use two different portals i.e. AMC portal to transmit sale of unit information and subsequently banking portal to transfer the payment in the designated bank account of the Fund.

RAAST can be a game changer in this context if it can be used as a system for collection of funds against sale of units.

CDC and MUFAP has taken up this matter with SBP for providing an option to make payments against investments directly on AMC's portal. CDC as an aggregator can establish API connectivity with AMCs and RAAST to facilitate transfer of funds from investor account to mutual fund's account.

Following would be the major benefits of this solution:

### **Common Bank Account for Collection of Funds**

All investments by customers in various AMCs investment products will directly fall into the designated bank account of Trustee which will then transfer it to respective fund's bank account on real time basis. There will be no need to maintain bank accounts with multiple banks for investment collection purposes.



## Better Customer Experience

Customers will pay for their investment directly from the AMC portal and will not be required to use two different portals to make payment. This will contribute to market development and make the fund collection process more efficient and transparent as funds will be transferred on real time basis. This remarkable improvement in process flow will encourage customers to invest digitally in mutual funds with more ease and confidence.

**Both these initiatives, if properly implemented, with proper facilitation from all the relevant stakeholders have the potential to change the digital landscape and the investment dynamics of the mutual fund industry. These initiatives can pave way for more investments and also enable us to bring new investors into mutual funds which has been one of our key challenges in the past. It is relevant to note here that out of every 10,000 bank account holders in Pakistan, only 18 have a mutual fund account. We are confident that with the implementation of these digital channels, these can be easily increase 10 fold in next three years.**

