

# MUTUAL FUND INDUSTRY IN THE DIGITALIZED ERA - OPPORTUNITIES AND CHALLENGES

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The digital revolution which started post COVID-19 continues to manifest itself in all fields of life including the financial sector. McKinsey' in its October 2020 Survey states, "The COVID-19 crisis has brought about years of change in the way companies in all sectors and regions do business. Companies have accelerated the digitalization of their customer and supply-chain interactions and their internal operations by three to four years.

And the share of digital or digitally-enabled products in their portfolios accelerated by a shocking seven years". Digital transformation has now become a top priority for money managers. Increased client expectations, new technologies, focus on cost reduction amid pressure on fees and revenues, competition and over-regulation are some of the reasons driving this change.

Pakistan's digital landscape is also evolving fast and the mutual fund industry is no exception to this trend (Exhibit A). As a first step, SECP introduced digital onboarding mechanism for mutual fund investors in 2020. This eliminated the requirement of physical presence and physical submission of documents. So far, out of the nineteen AMCs, only three have launched online account opening facility for investors. As a contrast to this, the Indian mutual fund industry started online account opening for investors in early 2000s.

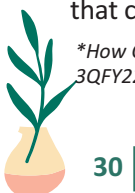
	March 2022	Growth during last five years
e-Banking Volume (Mn)	410	52%
e-Banking Value (Rs. Trillion)	35	66%
Internet & mobile banking users (Mn)	20	70%
3G/4G subscribers penetration rate	53%	23%
Digital wallet accounts (Mn)	75	64%
<b>Exhibit A: Pakistan's Digital Landscape</b>		

Company websites, online portals, social media, mobile applications, robo advisory, digital distributors, SMS and email marketing are the most widely used digital media. Increasing digitalization can help unfold the following opportunities for the mutual fund industry:

**Product promotion and awareness:** Digital media can be used to mass market mutual funds which have a low penetration rate in the country. Company-owned social media is an effective tool for raising awareness of new products, supplementing traditional media such as television, print, and outdoor marketing. Investors are increasingly using social media to critique products and companies before making a purchase. Companies can measure the reception to their fund offerings and how it can be improved based on the level of interaction it generated, or responses to any online contest it ran related to their offerings.

**Lead generation and customer engagement:** Digital tactics such as online contests, advertising etc. can generate greater audience participation. This audience engagement helps the company to make direct contact with leads that can be followed up with a more targeted pitch. The conversion of audience participation into lead generation

\*How COVID-19 has pushed companies over the technology tipping point-and transformed business forever, McKinsey, October 2020  
3QFY22 Payment System Review: State Bank of Pakistan



is an important metrics that AMCs may use to determine whether or not their digital marketing initiatives are effective.

**Digital distributors and aggregators** can help increase investor penetration for asset management companies. At the same time, it can help investors compare various funds on a variety of criteria and then subsequently invest in them. One such example is the Emlaak platform launched recently by IT Minds (a subsidiary of CDC).

**Reporting and notifications:** AMCs can build on digital reporting and notification capabilities to ensure easy access and quick response. Clients receive multiple reports such as periodic portfolio statements, transaction confirmations and other information via digital channels such as emails, SMS, and online portfolio tools. With digitalization, the ownership of these tools actually transfers to the client which adds to convenience and speed. The challenge is to make the investor comfortable in using those digital methods.

**Client servicing and feedback:** Digital means can allow keeping track of the status of clients' requests and cutting down on turnaround times and costs. This is also important in determining client satisfaction and the need for any modifications. Web-chat services can respond to customer inquiries instantly. IVR phone systems enable for direct transfer to the appropriate department for the client's question. Digital systems can also make gathering feedback straight forward which can assist in improving the customer experience

**Instant liquidity:** One of the reasons for the low penetration of mutual funds in the country has been the inability of AMCs to provide instant liquidity to its customers. AMCs are now launching debit cards for their investors which will eliminate the time involved in withdrawing funds and also facilitate seamless payments.

**While going digital has innumerable benefits, it has its own challenges too:**

**Information security:** Besides securing social communication channels, the security of the IT infrastructure and all the data it contains remains to be one of the biggest digital transformation challenges faced by companies undergoing or considering digital transformation. With tens or even hundreds of thousands of networked computers alongside social, cloud, and mobile channels; the potential attack risk expands exponentially. There will be need for bespoke security and compliance solutions capable of being scaled with demand.

**Infrastructure investment:** Digital financial infrastructure includes essential technological components such as mobile and broadband networks to support connectivity; as well as digital identity, data servers, data standards and protocols needed for onboarding customers, enabling transactions and protecting privacy. This infrastructure would require investment amidst pressure on margins and revenues.

**Human resources:** Going digital, makes it mandatory to invest in people especially in the IT sector i.e. developers, coders, maintenance, and designers, security specialists. By focusing on creating a digital culture, the companies can address one of its pain points - the lack of qualified personnel. A digital savvy organization will provide existing employees with opportunities to expand their skill sets and acquire digital skills. They can also attract employees looking for collaborative and creative environments that offer more autonomy. A better employee experience creates a better customer experience.

**Regulatory requirements:** To make the customers journey simpler on digital platforms, the regulatory and compliance requirements need to be further eased. For e.g. the online account opening feature of one the AMCs shows that to open an account, the customer has to go through nine different screens capturing different information. Of these nine screens, three screens pertain to regulatory information. Constrained by compliance with KYC/AML, the process of vetting new customers cannot be as simple as, say, subscribing to Netflix. Unfortunately, consumers are not always sympathetic to these regulatory challenges and will quit the account opening process midway.

The pandemic has accelerated a number of trends in the financial services sector, such as the move to digital channels and the rising level of customer expectations. With competition also increasing, the companies that thrive will be those that adopt experimentation and personalization across their operations in order to deliver the individual experience that consumers demand.