TREND

Fintech and asset management firms disrupting fund distribution

BY **TAN ZHAI YUN**

An increasing number of asset management firms are working with fintech firms — in particular, robo-advisors or digital investment managers (DIM) — to transform the way they distribute products through new platforms.

The platforms vary from firm to firm but, in general, they make it easier for investors to access unit trusts, as they can now buy them directly online and create personalised portfolios. The minimum investment amount and sales charges are also lower.

For instance, BIMB Investment Management Bhd partnered investment tech provider Valuefy Solutions to launch the BEST Invest app in April. With this, investors can rely on a robo-intelligence system to build a shariah and environmental, social and corporate governance (ESG)-compliant portfolio.

In July, Permodalan Nasional Bhd (PNB) launched Raiz, a micro-investing app developed with Australian fintech firm Raiz Invest. Eastspring Investments, meanwhile, works with robo-advisory platform StashAway on the latter's cash management solution.

Other firms that have announced similar plans include Affin Hwang Asset Management (AHAM), which is launching a digital cash management app with fintech firm Versa Asia Sdn Bhd.

"Our intention is for our solutions to reach Malaysians of all walks of life and income groups in the most effective way possible. It has to be convenient, provide 24/7 access and be easy to use," says BIMB Investment Management CEO Najmuddin Mohd Lutfi.

"With technology and artificial intelligence, we are able to customise investment solutions based on investors' goals and financial objectives that match their risk tolerance. This can be done in our BEST app in 10 minutes. With technology, we can now remove the barrier to entry, as many people were not able to invest prior to this due to high initial capital requirements."

The major driving factors of this transformation include the digitalisation of the financial industry and younger investors' preference for digital investing solutions. The Covid-19 pandemic accelerated the usage of digital investment products as well.

"The path of digitalisation would essentially mean that the process of buying funds will be digitalised, done either through your computer or your phone. The integration with online banking or e-wallets means that the account opening and transactions can be executed seamlessly," says Yap Siok Hoon, chief sales and marketing officer at Eastspring.

"Partnerships with fintech companies allow for learning opportunities and enhancements to improve the overall experience. However, even without the partnerships, most asset management companies are already exploring their own digital platforms. The partnerships open up more possibilities in terms of payment options, enlarged market segments and potential new product features," Yap adds.

Other than its collaboration with StashAway to launch StashAway Simple, which invests in Eastspring's money market fund, the company allows for investment transactions to be paid via e-wallet Boost.

According to data from the Securities Commission, most users of the fintech-driven peer-to-peer financing and equity crowdfunding platforms are below the age of 35. The same is true for Rakuten Trade, the first completely online equities broker in Malaysia, and robo-advisors, according to reports.

This is pushing asset management firms to change their ways to attract younger investors, a new growth segment.

"The online distribution mode cannot be ignored, especially with the younger generation, who are fully digital and tech natives. They represent a future market," says Ahmad Najib Nazlan, CEO of Maybank Asset Management Malaysia.

"Online investing is another channel where we can package and deliver our products differently by allowing customisation and simplifying the investment processes."

HOW DOES IT WORK?

In general, these new platforms allow investors to register and purchase funds online. Some only function as a cash management solution and invest in money market funds, while others operate like a robo-advisor that creates personalised portfolios for investors.

For instance, BIMB's BEST app suggests a portfolio of unit trusts from BIMB Investment based on their preferences. Investors can also choose the DIY function and select their own BIMB funds. The minimum investment amount is RM10.

"We made it affordable so you can focus on your goals and financial objectives. You can leave other matters like the selection of funds to technology, which will make the assessment for you," says Najmuddin.

Since its launch in April, around 20,000 individuals have signed up on the app, according to Najmuddin. While it is not specifically targeting younger investors, it aims to reach new segments of investors with this product. "We've been seeing new flows into our assets under management (AUM), so it's very positive," says Najmuddin.

There is no sales charge or transaction fee involved, he adds, other than the fees some banks may charge for fund transfers.

PNB's Raiz rounds up the user's transactions and invests the change into a diversified portfolio of Amanah Saham Nasional Bhd's unit trust funds. The portfolio is recommended based on the investor's preferences. Similarly, there is no minimum investment amount or commission charged.

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Traditional method of distribution to co-exist with new initiatives

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Another type of platform being launched by asset management firms focuses only on cash management solutions. It enables investors to have easy access to money market funds that could have higher returns than fixed deposits.

StashAway Simple is one example. It is a cash management portfolio within the StashAway app that invests in Eastspring's money market fund. There is no minimum balance required nor are there any deposit requirements or withdrawal restrictions.

AHAM is also building a cash management platform with Versa that will be launched later this year.

"Preserving sufficient liquidity while searching for decent yields in a lower-for-longer interest rate environment is among the topmost concerns of any investor today. The digital cash management platform that we built will simplify access to our money market funds," says Allen Woo, chief innovation officer of AHAM.

WILL THIS UPEND THE INDUSTRY?

Unit trusts have traditionally been distributed via unit trust consultants, banks and financial planners. Fintech firms have disrupted the landscape by allowing investors to purchase unit trusts directly online with lower initial investment amounts or fees.

Now, asset management firms are also partnering fintech companies or developing their own technology solutions. Will it replace the traditional model of distribution?

The view is that the traditional method of distribution will co-exist with these new initiatives because some client segments have different needs.

"The same method of investing [online and via apps] may not appeal to the older generation," says Eastspring's Yap. "However, the growth of the asset management industry will be driven by the younger generation eventually, and such partnerships allow for a wider reach."

Some investors also still prefer advisory services to help them plan their investments, says Najmuddin.

"Ultimately, we will respond to the needs and wants of customers in whatever form they are comfortable with. We think that right now, we have the right mix of digital and non-digital channels to serve all investors."

Nevertheless, the firms believe that the use of technology will become commonplace in the industry going forward, whether it is used in the back-end or consumer-facing processes.

For instance, Kenanga Investors Bhd is in the midst of enhancing the engagement tools that its relationship managers (RM) use to serve their investors.

"The need for RMs to assist investors in discovering investors' investment needs shall largely remain ... Investors will also be equally equipped with tools to manage their investments and remotely interact with their respective RMs," says Ismitz Matthew De Alwis, CEO of Kenanga Investors.

"We envisage positive incremental AUM flow from new investors as we enhance our RM tools and customer experience at large. With a stronger digital bridge built with our new and legacy investors, we will be able to better market products suited to our investors' needs." ■

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Pitfalls & Pitch calls

BY MICHAEL LAI

Are you ready for the final quarter of 2020?

Here we go again — another round of Conditional Movement Control Order (CMCO) in Malaysia following the fiercest upticks in coronavirus cases we have ever had. But is the reimposition of the CMCO really necessary, especially in Kuala Lumpur, Putrajaya and Selangor?

Given the questionable handling of the Covid-19 outbreak originating from Sabah, things would have turned out very differently had the government taken quicker action to curb movement within the state as well as between Sabah and the peninsula during the recent state election.

These states contribute the lion's share of Malaysia's GDP. Selangor is an industrial powerhouse that makes up nearly a quarter of the country's economy. KL — the centre of business — commands a good 16%. Together with Sabah, the CMCO affects nearly half of the total economy.

The silver lining is that unlike during the full-scale MCO that Malaysia suffered in March and April, broad economic activities are still allowed to operate, albeit with social distancing restrictions in place. Still, Malaysians may shy away from crowds on contagion fear once again, thus hitting consumer spending.

At a time when the loan moratorium has expired and households need to service their mortgages and car loans, there is now added pressure on the pace of economic recovery in the last quarter of 2020. Coupled with the current political instability, many investors may not be confident with the domestic market and may seek opportunities abroad.

In the US, the highly anticipated presidential election will be happening soon. It is important to remember the lessons from the 2016 election — don't take the pre-election polls too seriously. Betting markets were anticipating four years of President Hillary Clinton, only to be greeted by a Donald Trump presidency. We need to realise that people do lie to pollsters.

At the time of writing, the polls show that Joe Biden has a wide 10% lead over President Trump and has managed to sway some of the swing states in his favour, mainly due to the latter's poor performance in containing the pandemic and as Americans complain about the inaction to support them during this period as the government is incapacitated on stimulus talks.

But again, polls are not votes and we will only know the result of the election in the days following Nov 3. During that election week, expect volatility to be off the charts as investors await the results, as the mail-in ballots are counted and state wins are announced.

Professional managers are expecting a contested result where Trump is set to contest any unfavourable result. This could drag the elections to the Supreme Court, which is filled with a majority of Republican-appointed judges, which has cast some doubt on the verdict.

Investors who cannot stomach volatility should switch to safer assets such as bonds to escape any potential drawbacks in the markets as equities are set to hit several speed bumps in the course of this election cycle.

Investors looking for growth amid the pandemic are becoming increasingly interested in China, which is the first country to show signs of recovery from the economic devastation. The country's exports and imports posted strong gains in September, driven by a recovery in global and domestic demand.

China's imports from the global markets jumped 13.2% in September from the previous year. Exports topped market expectations for the sixth month in a row, rising to 9.9% in September, as the country continued to benefit from a coronavirus-fuelled demand for medical equipment and work-from-home electronic products. These numbers point to a robust recovery that will set the world's No 2 economy on the fast track to regaining its pre-pandemic vigour.

We expect export strength to continue alongside imports, as China looks inwards to drive growth and seeks to fulfil the commitments made in the phase one trade deal signed with the US in January, where it promised to buy more American agricultural and energy products.

China's effective measures in arresting the virus have resulted in a large part of the country returning to full operational capacity in the second quarter of 2020, giving it a competitive advantage over the rest of the world, which is still struggling with lockdowns. We remain constructive on the long-term outlook of markets with China, in particular, a bright spot.

For investors, exercising discipline in diversification and managing volatility remain key. A sensible strategy to hedge against election-related uncertainties is to tilt portfolios towards high-quality names with growth paths that are not heavily reliant on specific political outcomes, as well as to maintain exposure to beneficiaries of long-term secular trends such as the 5G revolution, the rise of the Internet of Things and cloud computing.

Given the series of events in different parts of the world and with the battle against Covid-19 still not over, readiness to embrace the final quarter of 2020 has become an even bigger priority. ■

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