AI IS A SUPPORT TOOL FOR SOUTH AFRICA'S EMBATTLED ASSET MANAGERS

Asset managers in South Africa, like their counterparts globally, face significant fundraising challenges and escalating costs. To navigate these difficulties, firms in the region are increasingly turning to artificial intelligence (AI) solutions, as explained by JTC Group.

SOUTH AFRICAN MANAGERS FEEL THE SQUEEZE

Assets under Management (AuM) in South Africa grew from R3.3 trillion in 2012 to R 7.76 trillion in 2023 [1]. Despite this growth, the sector's recent performance has been sluggish and net flows have remained flat. According to Charlie Brownlee, Director, Fund Services, South Africa at JTC Group, several factors contribute to this inertia.

"The macro fundamentals have not been particularly kind to the South African funds industry. Firstly, the country is suffering from market instability, characterised by slow GDP growth and high unemployment, which is eroding investor confidence, both domestically and internationally. In addition, low savings - due to inflationary and affordability pressures - are limiting how much money domestic investors can actually allocate to South African funds, while currency volatility and an increase in the amount of offshore investment exposure allowed in funds means those institutions with surplus cash are parking their money offshore and not with local funds," he said.

Compounding matters further is that South Africa is currently on the Financial Action Task Force's grey list, a designation which has deterred risk averse offshore investors from buying local funds.

Notwithstanding the flaccid fundraising environment, South Africa's asset managers are also dealing with many of the same problems facing the wider global funds industry. These include increased regulatory requirements and rising operational costs which are eating into their profit margins and resources alike.

At the same time, asset managers' outgoings, including those in South Africa, have soared exponentially recently, with Boston Consulting Group calculating that costs have increased by 70% since 2010, while fees decline due to client pressure and competition from passive funds [2].

[1] *Daily Investor – April 3, 2024 – South Africa's largest asset managers*

[2] *Boston Consulting Group – May 2024 – AI and the next wave of transformation*

THE INDUSTRY EMBRACES AI

As market conditions slowly deteriorate, asset managers in South Africa - and beyond – are having to think more laterally about ways they can streamline operations and reduce costs.

Asset managers are exploring AI's potential as one of the solutions to address these challenges.

"AI offers users, including asset managers, unparalleled processing capabilities. Firms can train AI tools, and they can be deployed either to solve fairly general challenges or some very specific business issues," according to Lisa De Vos, Director, Fund Services, South Africa at JTC Group.

On account of its sheer computational power, AI can trawl through vast pools of structured and unstructured data and identify trends or create analytics off the back of it. The subsequent productivity gains enabled by AI allow asset managers to free up resources across their front, middle and back offices, facilitating widespread efficiencies and cost savings.

Applications for AI are varied, although Mercer noted that 91% of asset managers are either using or plan to use AI within their investment strategy or asset class research [3]. "AI can process huge amounts of information, which would have previously taken investment analysts days and weeks to work through. While you will still need people to review the output, the technology can allow analysts to focus on other more pressing matters," said Brownlee.

In operations and regulatory compliance functions, AI tools can be used to automate repeat processes, generate reports and synthesise documents, creating further synergies.

AI is also being trialled by forward-thinking asset managers in client communications. By integrating well-trained Generative AI into client-facing Agents or Chatbots, some of the more straightforward queries received by asset managers from their customers can be answered without any need for human intervention.

Not only does AI enable firms to provide better customer experience, it also means managers can dedicate more time to dealing with complex client requests and providing that real value add.

Despite AI's potential, its implementation carries risks, such as reliance on poor data quality leading to flawed outputs and the technology's tendency to 'hallucinate' or generate incorrect information. Therefore, configuring the AI tools with this in mind to reduce this risk and keeping a reliance on human oversight to validate AI outputs is a crucial element.

[3] Mercer - Mercer Investments' AI integration in investment management 2024 global manager survey

ASSET SERVICERS ARE TURNING TO AI TOOLS

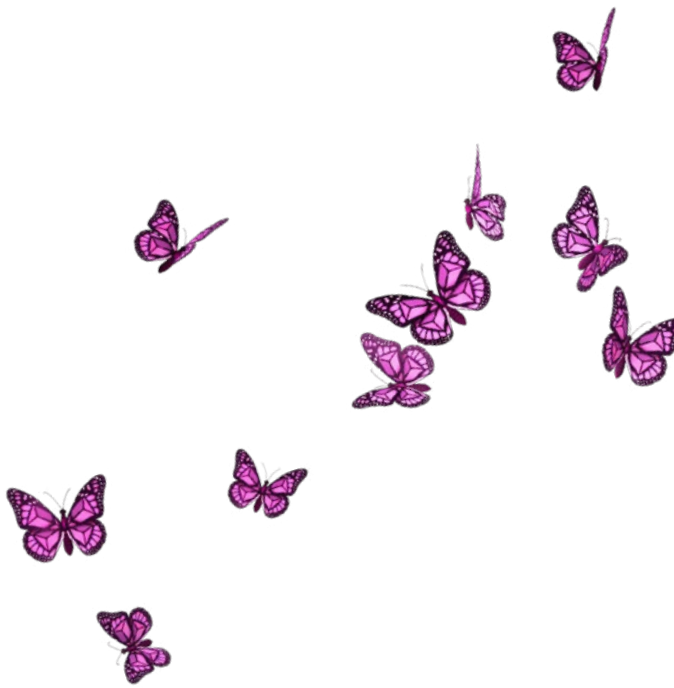
Asset managers, including here in South Africa, are increasingly turning to their service providers for support utilising AI.

De Vos highlighted that JTC Group is making use of AI tools for both internal and external purposes. "We are using various types of AI solutions for fund administration. JTC Group uses an AI tool to provide automation of common tasks such as NAV calculations, reporting and compliance monitoring. It is also being used to generate detailed and customised client reports, thereby ensuring that investors are kept informed and engaged by their managers. By using these tools to ingest and process curated data, our skilled employees are able to focus on reviewing outputs and adding value to our clients" according to De Vos.

Those asset servicers which embrace the smart use of AI and incorporate it successfully into their product suites will be ones who ultimately win the most wallet share moving forward.

The promise of AI is highly alluring. But with the funds industry technology evolving rapidly, keeping up with the pace of innovation is a challenge in itself. Partnering with JTC gives you access to our uniquely scalable technology platform that features built-in compliance, data security, automated reporting and enhanced transparency – all backed up with human expertise.

South Africa's asset managers face significant pressures. However, a strategic approach to incorporating AI can help achieve cost savings, business transformation, and market position solidification.



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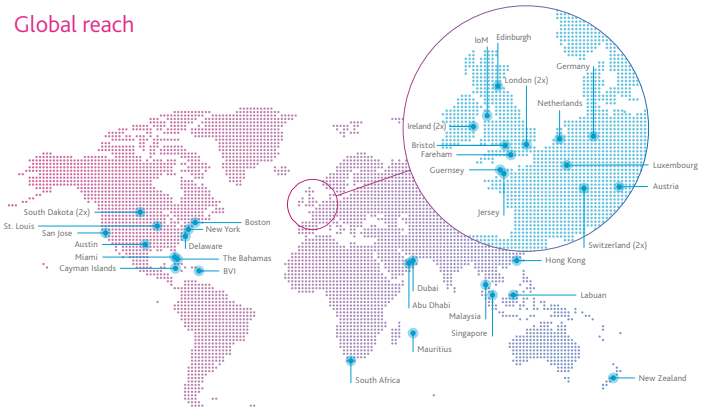
Global reach



ABOUT JTC

JTC is a publicly listed, global professional services business with deep expertise in fund, corporate and private client services.

Every JTC person is an owner of the business and this fundamental part of our culture aligns us with the best interests of all of our stakeholders.

Our purpose is to maximise potential and our success is built on service excellence, long-term relationships and technology capabilities that drive efficiency and add value.

We value shared ownership

- We operate around the principle that if our people have a stake in the business, they will do a better job for our clients.

We value relationships

- We aim to work with clients who share our belief in the importance of building strong relationships over time.

We invest in our people

- Over 83% of our employees hold a relevant professional qualification or are working towards this through our dedicated JTC Academy.

We embrace technology

- We operate a variety of best-in-class systems to deliver and maintain an impeccable standard of administration and use technology to innovate in both service delivery and efficiency.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

PRI Principles for Responsible Investment

Carbon Neutral Organisation

- Our environmental, social and governance (ESG) framework has at its heart our culture of shared ownership and is informed by our purpose, which is to help maximise the potential of every client, colleague and partner with whom we work.
- We believe that we will thrive as a business by working in a sustainable way, operating within constantly evolving legal and regulatory frameworks, respecting the natural environment and creating a positive impact for the communities where we live and work.
- We understand the ESG risks and opportunities our clients face and as a listed professional services business with expertise across a wide range of sectors, geographies and asset classes, we are ideally placed to support our clients with a range of solutions that help them meet their own ESG commitments and goals.

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For full details of those JTC Group entities that carry on regulated business and certain other JTC Group entities, please visit our website: www.jtcgroup.com/legal-and-regulatory

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