

Distribution of Mutual Funds – Challenges & Opportunities



Sundeep Sikka
Chief Executive Officer
Reliance Capital Asset
Management Ltd.

MF Industry at a pivotal growth stage

MF Industry has posted all-round growth this year and reached new highs across several aspects. Investors, distributors, and AMCs alike are enthusiastic about the future, mindful of the key positives in favor of the Industry and India's growth story as a whole. **MF Industry has shown decisive growth post the dip in Mar 2012 – posting**

23% CAGR growth till Mar 2015. After a 17% CAGR in 2 years ended Mar'14, Industry assets up by 31% this year. As per latest data shared by the Association of Mutual Funds in India, assets under management of the mutual fund industry created a new record in May at Rs 12+ lakh Cr. There are several signs that clearly show the growing maturity of the MF Industry such as growing investor base, higher focus on investor education, and continuous improvements in the regulatory environment. Though it has a way to go compared to more developed economies, the Industry is definitely going in the right direction. Today, the Industry is ready to take a quantum leap with confidence to almost double the size in next 3 years.

We are witnessing a trend where more and more investors are coming back into financial assets.

Within the MF Industry, we have seen investors participating in a big way this year, and it is heartening to see that folios have risen significantly. The overall folios which were constantly falling for 29 months till May 2014, have started regaining the lost ground. Overall number of folios were 3.95 crore in March 2014, increased significantly to 4.17 crore as of 31 March 2015. It is heartening to note the increase in retail AUM comprising of Equity, Balanced and ELSS schemes which moved up from Rs. 207,900 crore to Rs. 371,507 crore during the year, up 79%. These schemes together have recorded the highest ever assets addition in FY15, of Rs 1,63,600 Cr. There was also a big bang return of NFOs under close-ended equity schemes, which generated overwhelming response. There were 84 NFOs under equity schemes, under which Rs. 15,431 crore were mobilized during the year.

MF Distribution – Challenges and Opportunities

Challenges
The smaller locations in India hold potential for tremendous growth, but also pose challenges that are unique to developing economies. Although financial savings are reasonable, there is **less clarity about the advantages of investing. Financial literacy** and general awareness of the investment options are lacking. A clearer picture about risks, return, pros and cons of various investment avenues would open up inflows in Mutual Funds. There is also a certain **tendency to equate Mutual Funds with Equity**, thereby ignoring several other products with comparatively less risk. Although concerns about inflation, retirement, financial health are present in these locations, the lack of financial awareness means that these concerns might not have led to investment decisions. What is required is change in investment culture that embraces all the avenues and tailors a portfolio according to the individual's needs. **A stronger advisor community** could help the investors with these decisions and improve penetration levels. In addition to these, the **potential to achieve long-term wealth has not been clearly communicated** to the investors.

Limited Distribution network

One of the main challenges for fund houses is to distribute their products in smaller cities. Fund houses need infrastructure like branches, adequate number of relationship managers and sales service staff in these locations to be able to increase their sales volume coming from these smaller locations.

Cultural bias towards physical assets

Although, in the past few decades, the investors have increasingly relied on financial assets to invest their savings; the contribution of MFs in the asset portfolio is very low. Insurance products constitute 17% of the individual savings in financial assets, whereas the share of mutual funds is much lower at around 2%.

Investor psyche

India is still a relatively under penetrated market when it comes to paying for financial advice. Most investors are not comfortable paying a fee when it comes to receiving financial advice and even more so in years where the market sees greater volatility and when there may be potential losses on investments. In the mass affluent segment, paying for advice still remains a relatively nascent concept. However, as SEBI Chairman Mr Sinha mentioned recently, there needs to be a distinction between an advisor and a distributor. The pure advisory model is likely to be the future, which would help further improve the Industry and have positive impact across stakeholders.

Opportunities

Industry participants along with SEBI and AMFI have been focusing on geographical and retail penetration for awhile. Initiatives like 'District Adoption' will go a long way to improve overall financial literacy and strengthen presence of the Industry across the country. The green-shoots of these efforts are already showing up – folios in relatively smaller locations (Beyond Top 15 locations) now outnumber those in Top 15 locations. In B-15 locations, the overall AUM in the retail segment has grown from Rs. 89,496 crore in March 2014 to Rs. 108,184 crore in March 2015, recording a growth of 21%. Likewise, the folios in B-15 towns in retail segment have also increased from 1.71 crore in March 2014 to 2.08 crore in March 2015, a rise by 22%. We have been also seeing steady increase in new ARN registrations. During the year, as many as 22,669 new ARNs/EUINs have been allotted. Interestingly, 41% of overall registrations have come from B-15 Centres.

Despite this growth, there is tremendous opportunity to expand in smaller locations. Drivers like lack of financial education and awareness, limited distribution network, cultural bias towards physical assets are some of the key impediments to growth in B-15 cities as of now.

Investor Awareness

The biggest challenge and the biggest opportunity of the Mutual Fund Industry is a strong and focused Investor Awareness Campaign. During the year, as many as 11,095 such programmes were conducted with as many as 4.17 lacs participants. What is needed is the conviction of the AMCs to further increase the scale and scope of these programs with the long-term goal of achieving a powerful pull effect for the MF Industry.

Technology

The meteoric growth of mobile phones in India coupled with advancing mobile banking service provides an opportunity to cover rural markets and bring a larger

number of investors to the Industry. Further, SMS transactions have the potential to significantly improve convenience and speed of transactions. Technology can not only improve the investing and advising experience, it will turn out to be a **big cost saver**. **As SEBI Chairman, Mr Sinha has pointed out on several occasions, digital adoption has speeded up in many industries and needs to be tapped for MF penetration and growth in smaller locations.**

IFAs

Even today, in India, the financial investments are mostly driven by trust and relationship. In such cases, investors would prefer buying from a known face. Independent Financial Adviser (IFAs) serve as an important link between the sellers and buyers of the financial products. They have a good hold and bond with their clients. Therefore, it is important to tap the IFAs that have a client base in B-15 cities.

New cadre of distributors

The introduction of a new cadre of distributors like postal agents, retired government and semi-government officials, retired teachers, retired bank officers, has the potential to be a game changer for the industry. Especially in smaller locations where even bank branches are sparse, these new distributors could give a leg up from the grass-roots level. A simpler registration process and sale of simple products are both beneficial to start the process of widening the distributor base especially in the Tier II and Tier III locations where it matters most.

Conclusion

It is inarguable that this is a pivotal phase for the Industry. Although still in the nascent stage with regard to penetration, the collective steps taken in the near future by the stakeholders will determine the direction of the Industry for a long time.
