National Wealth Creation Initiative is what India needs

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Current Stage

We believe that financial distribution is on the verge of huge growth. With the Government of India's Jan Dhan movement along with the passing of the Aadhar Act this March, the foundation has been laid for incredible growth. Add to the mix a new empowered consumer who is willing to experiment, low-cost technology enabled engagement tools and public awareness for wealth creation through Mutual Funds; the stage has been set for a sustained expansion of the mass wealth management industry and for the multifold increase of household participation in capital markets in the coming years.

Jan Dhan, the Indian government's financial inclusion drive which has provided banking services to more than 15% of the unbanked population, with the cumulative balance of around Rs. 40,000 crores via 22.37 crore saving bank accounts. As a result, each day, new doors of an untapped market are being opened for financial distributors. With 9.46 crore Suraksha Beema Policies, 2.98 crore Jeevan Jyoti Beema Policies and 22.37 crore saving bank accounts, we have made a decisive push in the direction of becoming a financially included society. Industry regulators like SEBI, IRDA, PFRDA, RBI have created a secure environment which has helped in developing a positive mindset among the investor community.

India is a young country with a saving rate among the highest in the world. However, currently less than 5 % of Indian households invest in capital markets. There is a huge investor base waiting to be tapped within the universe of financial products. The mutual funds and insurance segments could facilitate this speedy growth as investors will progressively shift from traditional products to market-linked products for wealth creation.

Change in Investors mindset

Initiatives like Beyond Top 15 cities (B15) market expansion by SEBI for mutual funds, have been immensely successful in encouraging investors in smaller cities to participate in capital markets. Central KYC (CKYC), the ambitious, much awaited project by the Ministry of Finance, which has recently come into action, is not only going to ease the process of investment for new investors but also going to give a massive boost to the expansion of the financial distribution industry and as well as e-transactions. Thanks to a growing number of investor awareness programs done by mutual funds and the financial distribution industry, there is a greater awareness among the investor population to invest for the long term, mitigate the risks of market volatility and gain from the power of compounding. A key factor that has allowed higher inflows in equities over the past two years is the change of the taxation structure for debt-oriented funds and the emergence of categories such as arbitrage funds and equity saving schemes. This signals that informed investors are prioritising asset allocation over schemes. Systematic Investment Plans (SIP) and Systematic Transfer Plans (STP) in mutual funds, with rapidly growing numbers, have become brands in themselves with an impressive track record. These plans have performed irrespective of the market levels and have bolstered investor confidence.

Today's investors have a choice of multiple distribution models which they did not have before. A young, less aware investor could go with a Robo-Advisory model of investing, while an informed investor could go with a transaction-only model, Furthermore, High Net Worth Individuals (HNI) and people who want high-quality pre & post-investment reviews and services could go with fee-based investment advisors.

Opportunity

The financial distribution industry can grow exponentially in the next few years given a steady growth in GDP as well as the financial markets, a stable and forward-moving regulatory environment, and attempts by participants to deepen their reach. Increasing the investor base in the Top 15 and Beyond 15 cities entails retention of existing clients by offering them value-added services, which is a challenge as well as a huge opportunity for distributors.

Challenges

The USA and Australia both have mandatory retirement savings invested through mutual funds. No wonder these countries have an Mutual Fund AUM to GDP ratio of about 91% and 111% respectively, as opposed to just above 10% in our case. Not only the developed countries, but Chile has also proven to be a leading example of pension funds directing towards financial market growth. The AFP (Administradoras de Fondos de Pensiones), Chile's pension fund, which is similar to the 401K of the US, has been privately managed by the country. The national saving is way beyond the depth of local capital markets, hence Chile Pensioners' money is invested in capital markets across the world. India, with stock exchange history dating back over 100 years, has a deeply embedded equity cult with a robust entrepreneurial business environment. We are in the sweet spot of high economic growth, where we should educate and encourage our citizens to participate in capital markets for their Retirement Planning. Our New Pension Scheme (NPS), a Government Initiated Pension program which invests in capital markets, is 15 years old now. We need to ask ourselves why it is not as successful as in countries like Chile. For starters, it is not a mandatory pension scheme for all citizens and additionally, the distribution system is virtually excluded due to low remuneration.

Retirement Planning has huge potential in India. It is essential because of the lack of a mandatory social security system. We have the Employee Provident Fund (EPF) system which is a defined benefit scheme. What is required is a defined contribution scheme which gives citizens the upside of the capital markets. This requires fresh impetus from the Government. It is time that the Government extends its Jan Dhan program. Essentially, the Government should decide to back financial inclusion and basically ensure that every citizen in the country, above a certain level of income, participate in capital markets through a mandatory retirement savings scheme. The low threshold of mutual fund SIP (Systematic Investment Plan) because of the limit of Rs. 500 per month in the case of mutual funds and Rs. 100 in the case of NPS, has brought these voluntary schemes within reach for a large portion of the population of the country. Just as the Government promoted bank accounts and life and health Insurance in the initial phase of Jan Dhan scheme, it should, as a next step, encourage participation in the aforementioned long term retirement planning schemes by allocating investor awareness initiatives from its Investor Education Funds created from a pool of unclaimed dividends over the years.

Conclusion

We need support from the Government to ensure that even the lower income segment of the society will be able to participate in the national wealth creation system by opening a Pension Account, which will participate in the equity market. Instead of a parallel EPF and NPS system, we need a single national wealth creation system on the lines of 401K plans in the US or Superannuation system in Australia.

Every Indian has a right to participate in the growth of their country. Our capital markets provide that vehicle for them to be partners in the growth of India