

# The Indian Mutual Fund Landscape— The Next 10 Years



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The Indian MF Industry has grown to be one of the stalwarts in the financial services space. The Industry has managed to grow across all parameters and become a much more robust investment avenue. In the last 3 years, assets have grown 77% from Rs 14 lakh Cr to Rs 25 lakh Cr. Monthly SIP Book multiplied more than 2.5 times from Rs 3,200 Cr to Rs 8,200 Cr and Retail assets have more than doubled from Rs 2.8 lakh Cr to Rs 6.5 lakh Cr. Participation has increased significantly, and the Industry now serves more than 8.2 Cr investor folios, up from 4.8 Cr 3 years ago. Indian MF Industry has always been well-regulated and SEBI has gradually strengthened it further over the last few years. Growth has kept pace even with more developed economies. Indian MF Industry grew 14% annually on average in last 10 years, outperforming the growth clocked by the world and developed regions by more than double.

Despite the tremendous growth, the potential in India is barely been realized. In a population of over 130 Cr, MFs cater to 8 Cr investor folios with the actual investor count being even lower. Although MF flows continue to rise, the domestic potential itself is significantly higher. More evolved economies provide a glimpse of the future for India. In USA, the asset management space is 101% of the GDP, France is at 76% and World average is roughly 62%. In India this ratio is roughly 13%, pointing to the geometric growth possibility in the next decade.

Going forward, there are few key themes that can be foreseen based on the present environment. Digital is a clear theme across industries and will continue to grow its influence on the MF Industry. There is a case to be made that few years from now, Digital will be seen as the biggest pivotal change in the Industry that shaped several aspects such as distribution, advisory, payment avenues, communication, customer service, and maybe even fund management in the form of aid from AI systems. India is one of the economies that has successfully leapfrogged the PC stage of development and move directly to a widespread usage of smartphones. At roughly 37 Cr, India is the second largest holder of smartphones in the world. This platform has a growing significance both as a storefront and as a means of payment. Mobile apps are quickly becoming one of the

key sources of MF transactions. Fintech marketplaces like Paytm, ET Money, Groww, Kuvera, etc. have started garnering significant flows from investors especially in SIP form. Apart from customer facing apps, there are also several AMCs that have put forth apps that help distributors streamline their efforts and harness Digital solutions to reach out to more investors.

In addition to Digital, Distribution and Advisory services will play an even more significant role compared to current environment. There are certain areas like shopping, where digital storefronts are successfully competing with brick-and-mortar outlets and sometimes even edging ahead in the race. However, as far as financial decisions are concerned, there will always be a human touch required for the investors. Right from risk assessment to goal setting and portfolio allocation, a financial advisor is irreplaceable in the investment process. In the Indian context, with financial awareness still at a sub-optimal level, Mutual funds have not yet been fully absorbed by the public consciousness. As such, distributors form a crucial link between AMCs and investors, by raising awareness and onboarding investors that are new to the Industry. The strength of Distribution network across the country, along with their dedicated efforts will be the most important barometer of the Industry's success in next 5 years. As the Industry matures further, all stakeholders will have a balanced role to play. However for the near future, distributors and Digital solutions are likely to prove the most crucial catalysts for growth.

The third theme, is the emergence of a new category of investors. Gradually, as MF awareness becomes more widespread, they will start being utilized even for month-to-month money management by small investors. Products like Liquid funds and ETFs will become ubiquitous regardless of income levels. This new wave of investments will start coming from fresh investors. As per AMFI, 24% of Equity AUM comes from locations beyond the Top 30. This may not seem like much, but signs point towards a vast untapped potential in smaller cities and towns across India. As financial awareness and income levels rise, there is a slowly growing category of investors that are coming from smaller locations across the country. This new wave of investors will also need a different approach from stakeholders. Addition of new languages in communication, simpler onboarding process, quicker turnaround on NAV assignment, etc will be important to take MFs to the masses.

The India growth story is intact and indeed growing stronger by the day. However, tapping this potential in Asset Management space needs more than growth drivers. There is an inherent responsibility of all stakeholders that forms the backbone of this Industry. Recent credit events have affected the MF Industry and brought to light the periodic risks involved in MF

investments. In the long run, all AMCs have the responsibility to continue strengthening their risk management processes and put the investors' interest at the forefront. Digital solutions and financial awareness campaigns can help expand the reach and recall of MFs, however the core value proposition needs to be waterproof to ensure sustainable growth. On similar lines, distributor and advisor community has an important duty towards their clients to guide them through the investment process and help make the most appropriate decisions for the particular investors. The continued trust of the investor in the MF Industry is the most important metric of success and driver for growth.

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The next decade is a golden growth opportunity for the Indian MF Industry. The high growth trend witnessed in the last few years is likely to continue even stronger. As per several Industry reports, Indian MF Industry is forecasted to cross 40-50 lakh Cr by 2023. With retail flows back on the rise in the last few years, growing usage of Digital media and backing of distribution community, this milestone seems achievable. The Indian growth story is intact and further financial deepening will be a catalyst for growth in the Asset Management space. Strong growth numbers are a given, however the flavor of this growth trend will be determined by all stakeholders ensuring the continued trust of investors and championing long term wealth creation for them.

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