<u>Brief Proceedings of the MCCI Mutual Fund Forum 2018 on 'Mutual Funds: Securing India's Financial Future' held on 24 August 2018 at the Lalit Great Eastern, Kolkata.</u>

MCCI organised the **MCCI Mutual Fund Forum 2018** with the theme **'Mutual Funds: Securing India's Financial Future'** at the **Lalit Great Eastern** on **24 August 2018**.

The **Inaugural Session** was addressed by the following speakers:

Welcome Address: Shri Ramesh Agarwal, President, MCCI
Shri Sasanka Sekhar Nundy, President, Independent Consultants & Advisors Association (ICAA)
Shri Saugata Chatterjee, Co - Chief Business Officer, Reliance Nippon Life Asset Management Limited.
Shri Prem Khatri, Founder & CEO, CAFEMUTUAL
Shri G. Pradeepkumar, CEO, Union Asset Management Co. Pvt. Ltd.
Shri S. Madhusudanan, Regional Director-Eastern Region, SEBI
Address by Guest of Honour: Shri N. S. Venkatesh, CEO, Association of Mutual Funds in India (AMFI)

Shri Ramesh Agarwal, President, MCCI in his welcome address spoke about the Rs. 23.06 trillion MF market in India as on 31st July 2018. He mentioned about "Mutual Funds Sahi Hai" campaign, based on SEBI's initiative to provide awareness. He spoke about the lack of healthy participation beyond the top 15 locations.

India lags most major nations in terms of assets under management (AUM) of Mutual Funds, as a percentage of Gross Domestic Product (GDP). In India, with 42 Mutual Fund houses managing assets to the tune of over Rs. 23 lac crore, asset base of Mutual Funds as a percent of GDP is just 11 p.c. while the world average is 62 p.c. It is true that Mutual Funds have not yet been able to gain a significant share of investors' wallet mainly due to lack of financial awareness among a major segment of the population. Moreover, there is a lack of healthy participation from investors beyond the Top 15 locations. As per recent statistics, more than 80 p.c. of the Mutual Fund industry AUM comes from the top 15 cities.

SEBI has taken a proactive regulatory stance to ensure that the industry grows in a sustainable manner. The regulations have been nuanced in the way that it brings more transparency and disclosure from the Mutual Fund houses and benefits the investors. The successful 'mutual funds sahi hai' campaign was based on SEBI's initiative to provide awareness.

Going forward, there is no doubt that technology will play the most important role in increasing the size of the Mutual Fund industry. Many experts believe that Mutual Fund operations are moving toward total technology dependence.

By 2021, 64 p.c. of India's total population will be in the working age group. Millenials are the largest and fastest growing adult segment across the world and they represent the greatest opportunity for the asset management industry.

86 p.c. of the AUM of Mutual Funds is concentrated in 8 states and Union Territories. Maharashtra leads the pack, followed by Delhi, Karnataka and Gujarat.

Shri. Sasanka Sekhar Nundy, President, Independent Consultants & Advisors Association (ICAA) said that the mutual fund industry is at a critical juncture and financial inclusion has just started. It is our joint responsibility to take the industry to the public and make them partners. We have to change from being savers to being investors which will be possible with the participation of all.

The role of all stakeholders is defined. If we do our work, then the country will not have to rely on foreign capital for the Nation's growth.

There will be issues and areas of disagreement in an industry as large as the Mutual Fund industry. Disagreements need to be resolved. The objective of this Session is to brainstorm ideas so that people benefit.

Shri Saugata Chatterjee, Co - Chief Business Officer, Reliance Nippon Life Asset Management Limited said that the Government has brought in enablers which have allowed wealth creation. Assets in the Mutual Fund industry have grown multifold and the industry will grow by leaps and bounds. The AUM of the industry have grown 2x in the last 3 years and almost 5x in the last 10 years. The Mutual Fund industry added 35 lac investor folios in FY19.

The Mutual Fund industry currently has an AUM of Rs 24 lac crores and an investor base of 2 crore people. It is a high potential industry and it can acquire an AUM of Rs 100 lac crore in the next 10 years. The penetration of the Mutual Fund industry in terms of AUM / GDP is low in India.

The contribution of equity has risen from 22 p.c. in March 2014 to 41 p.c. in July 2018. The growth in the largest 15 cities is higher than the industry growth rates.

The dominance of the retail segment has grown from 18 p.c. of assets to 24 p.c. of assets. The SIP book has grown sharply recently and 8 million new SIP accounts were added this year.

The factors favouring the Mutual Fund industry are the large population and the sizeable savings. The Mutual Fund industry has to transform from acquiring customers to increasing share of wallet; from just selling products to providing solutions and from dealing with the individual to managing a family's financial health.

The Mutual Fund industry needs to leverage the digital medium to expand reach, build efficiency, set high service standard, maintain connect and enhance knowledge.

The issue is that everyone is saving in India but can the savings be converted into investment in the Mutual Fund industry.

Shri Prem Khatri, Founder & CEO, CAFEMUTUAL said that if the Mutual Fund industry grows at a CAGR of 17 p.c. then it can reach a size of Rs 50 lac crores in 5 years. In order to get there, the industry needs to do the following:

- Adopt investor education based on consumer insights
- Expand and modernise distribution
- Woo the customer
- Simplify products and never engineer. Currently, Mutual Fund products are overly engineered.

In a sense, investing in Mutual Fund is counter to human nature as it postpones gratification and it is devoid of any sensory or emotional payoff. Also, we are not happy making decisions which make us feel inadequate such as investing in a Mutual Fund.

Furthermore, Mutual Fund products are complicated and complex. They offer intangible benefits and provide uncertain outcome.

The current state of investor education is preaching to the converted with Mutual Funds unfortunately engaging in surrogate advertising. The recommended state of investor education includes a focus on expansion of category, running campaigns for specific segments and building on principles of behavioural finance.

The Mutual Fund industry needs to **expand distribution** by setting high standards and endowing the profession with prestige. In fact, being a distributor should be a wonderful profession of choice.

Distribution can be modernised with a segmentation and niche approach and by shifting from new client acquisition to higher engagement.

This is not the age for mass marketing. Today, everybody has a different requirement. In the US, one mutual fund only sells to dentists who do cosmetic surgery. This is the age of specialisation and we can meet the needs of customers when we specialise. Also, IFAs need to be in constant engagement with clients and they must intensively engage with customers.

While wooing the customer, the distributor needs to remember 'different strokes for different folks'. Mutual Fund products need to be simplified. Too many product choices create confusion in the mind of the investor and in fact too many choices baffle and immobilise the buyer. The evidence is mixed on how different categories add value.

Shri Prem Khatri summed up by saying that distributors should build on consumer needs, distribution must become a prestigious profession, different audiences must be attracted with different messages and Mutual Fund products must be simplified and streamlined.

Shri. G. Pradeepkumar, CEO, Union Asset Management Co. Pvt. Ltd. said that we are at the right place at the right time as the Mutual Fund industry has grown 5x in the last few years. IFAs have been significant contributors to this growth. People invest in Mutual Funds to create wealth and the focus should be on this. The benchmarks are not important; what matters is the end result and whether we are adding value for our customers.

The AUM / Deposit is 20 p.c. in India but 200 p.c. in the US. Growth will not come from only chasing existing customers. You have to reach out to new investors for which we need more advisors. In fact, we need 5x more distributors than we have today. If we are to go from 1 lac to 5 lac distributors, then we need more women distributors.

Customer acquisition happens when you have a human face. Investors need to see a face that they can trust as they are assigning their life's savings. Technology is there to help us.

Ordinary retail clients need help from an advisor. Direct clients are good in the case of sophisticated clients with skills.

The current expansionary Mutual Fund industry has a lot to offer to everyone. There is room for every AMC and for every distributor to grow. SEBI has said that it will promote a level playing field which is good as we need a level playing field. The market will be volatile. If the distributor takes care of his customer, then he will have nothing to worry about. Today, there is more goal based selling of Mutual Fund. Nobody is trying to double their corpus in a short period which is a healthy sign. The vision for the future envisages 40 to 50 strong Mutual Funds and 5 lac distributors.

Shri S. Madhusudanan, Regional Director-Eastern Region, SEBI spoke about the four pillars of Mutual Fund Regulations, namely, Separation of Ownership & Management; True & Fair Information to Investors; Risk Mitigation & Investment restrictions and Fair Valuation to maintain Market Integrity. In case of conflicting Investor interest and Advisor interest, the latter should be aligned with the former. There is a huge demand for Mutual Funds in smaller towns, people are convinced about investing and adequate infrastructure should be created. Investors should stay away from short term gains.

Today, total AUM in the Mutual Fund industry stands at Rs 24 lac crore, which is expected to reach Rs. 50 lac crore in the next 5 years. One driver of growth is industry friendly measures which were pushed by SEBI. The AUM of Mutual Fund industry stands at Rs 24 lac crore or 11 p.c. of GDP in India. In the US, AUM of Mutual Fund industry is 62 p.c. of GDP.

Major developments and Investor Protection Measures adopted by SEBI include the following:

A) One-time KYC for investing in mutual funds.

B) Classification of mutual funds into 5 schemes: Equity Schemes, Debt Schemes, Hybrid Schemes, Solution Oriented Schemes and Other Schemes.

C) Product labelling of Mutual Funds as under:

Low - principal at low risk; Moderately Low - principal at moderately low risk; Moderate - principal at moderate risk; Moderately High - principal at moderately high risk and High - principal at high risk.
The above mentioned labels are represented on a "Riskometer" depicting level of risk in any specific scheme.

D) Separate Scheme Information Document (SID) / Key Information Memorandum (KIM) for each mutual fund scheme: available on the website of mutual fund / its AMC.

E) Mutual funds to provide following additional disclosures in offer document:
- Tenure for which fund manager has been managing the scheme
- Scheme's portfolio holdings
- Expense ratio in case of FoF schemes
- Scheme's portfolio turnover ratio

F) Investment in MFs through e-Wallets up to Rs. 50,000/- per MF per investor per financial year.

G) Cash transactions in MFs up to Rs. 50,000/- per investor, per MF, per financial year to enable small investors to invest in market.

H) MFs to issue Consolidated Account Statement (CAS) to investors, which contain total purchase value / cost of investment in each scheme.

I) Instant Access Facility to facilitate credit of redemption proceeds in bank account of investor on same day of redemption request.

J) Each mutual fund to have a dashboard on its website providing performance and other key disclosures pertaining to each scheme managed by AMC.

Shri N. S. Venkatesh, CEO, Association of Mutual Funds in India (AMFI) said that in order to reach the AUM of Rs. 50 lakh cr. from the current level of Rs. 24 lakh cr. in 5 years, there should be widening and deepening of the distributor base, particularly reaching out to Tier II & Tier III cities. Currently there are only 1 lac distributors, which should be increased to 5 lacs, who would bring in investors from the smaller cities for wealth creation. There is a huge potential of channelizing the PAN holders, 29 crore in number, to create more investors.

Volatility of the market always adds life to the MF sector and AMFI has a huge role in creating investor awareness. A differentiated strategy may be used to get new investors and technology may be used to increase the sphere of influence and also reduce costs. A Vision Document has been released for reaching Rs. 100 lac cr. mark by 2025.

We are celebrating 25 years of private sector presence in Mutual Funds from 1993 to 2018. Mutual Funds started in India in 1964 with UTI and Kothari Pioneer was the first private Mutual Fund in 1993.

Markets will be volatile. We are integrated with the world economy so overseas events will impact the market.

We only have 1 lac agents / distributors in India today. Investors have found solutions due to the physical contact that distributors are making with investors. Distributors are today concentrated in a few cities and the Top 10 cities provide 60 p.c. to 70 p.c. of total AUM. It is necessary to have more AMCs.

Today, there are 29 crore holders of PAN card and 2 crore investors in Mutual Funds. Therefore, there is scope for the Mutual Fund market to be broader and deeper. AMFI supports a broader and deeper market. Customer acquisition is the key and there are a lot of opportunities even at the bottom of the pyramid. The distributor is the friend of the investor and the former will create wealth for the latter.

The Mutual Fund industry is today attracting about Rs. 7,000 crore each month through SIPs. This inflow is a counter to volatility due to withdrawals by Foreign Institutional Investors (FIIs). 90 p.c. of returns come from asset allocation and only 10 p.c. from timing. In SIP, there is no timing. The formalisation of the economy is taking place post demonetisation due to which investors are shifting from physical assets (gold and real estate) to financial assets such as Mutual Funds.

The key is the investor protection provided by SEBI which has allowed the market to grow to Rs. 23,000 lac crores. The disclosures are of a world class standard and the interest of the investor is at the forefront. If investor rights are protected then the industry will grow. AMFI is trying to educate investors through its 'Mutual Funds sahi hai' advertisements. SEBI has adopted a nuanced approach to adopting regulation so that the industry is not disturbed.

The longer an investor stays in the market, the higher the returns. Retail investors tend to enter the market at a late stage in the bull run.

The average age of an Indian will be about 20 to 25 years by 2020 and there will be a golden run for Mutual Funds for 30 years. This generation will create wealth for their retirement. Hence, distributors must 'catch them young'. AMFI is increasing its activities in Tier 2 cities. AMFI is participating in Investor Awareness Program with SEBI, including in the East and North East India. AMFI would like to capture potential investors by on-boarding them by getting a KYC done for them after which the distributor can convert them. AMFI aspires for total Mutual Fund AUM of Rs. 100 lac crore by 2025 from about Rs. 23 lac crore currently.

The session ended with a hearty vote of thanks offered by **Shri Smarajit Mitra**, Chairman, Standing Committee on Banking, Finance & Insurance, MCCI.

The topic for the **First Session** was '**Technology & Digitisation: Possible Impact on Asset Management Industry**' and it was addressed by the following speakers:

Speaker & Moderator: Shri Tanwir Alam, Founder & CEO, Fincart

Panellists:

Shri V. Ramesh, MD & CEO, MF Utilities India Pvt. Ltd.
Smt. Lakshmi Iyer, CIO-Fixed Income & Head-Products, Kotak Mahindra Asset Management Co. Ltd.
Shri Madhu Sudhan, Head – Digital Business, Motilal Oswal Asset Management Co. Ltd.
Shri Saurabh Arora, Head – Digital Sales & Alliances, Aditya Birla Sunlife Asset Management Co. Ltd.

Shri V. Ramesh, MD & CEO, MF Utilities India Pvt. Ltd. said that MF Utility was set up as an enabler to conveniently execute a transaction. In ecommerce, the relationship with the customer is transactional in nature. On the other hand, in the Mutual Fund business, the distributor has a relationship with a customer for good. There are lessons from ecommerce for the Mutual Fund industry but the two are not similar.

Shri V. Ramesh said that many investors after opening their Mutual Fund account will invest digitally at any time. Thus, convenience for investing is being built in. In a short period of time, it is estimated that 96 p.c. of investments will become paperless. Furthermore, if you update your account details in a central repository, the change will be reflected in all your folios. Also, technology is enabling people in remote areas to invest.

Shri Ramesh said that a ready-made customer who has done cKYC is available with PayTM.

With regard to Mutual Funds operating on WhatsApp, Shri Ramesh said that execution will be easy. Also, some Mutual Funds will agree to doing business on WhatsApp while others will not agree as there may be a fear of fraud. In the end, the convenience of WhatsApp will mean that less time will be spent on operations and more time can be dedicated to acquiring customers. Distributors can empower customers by using WhatsApp.

Shri Saurabh Arora, Head – Digital Sales & Alliances, Aditya Birla Sun Life Asset Management Co. Ltd. said that ecommerce and telecom have proven that more customers is better. Similarly, the earning of a distributor is greater from a larger AUM.

A distributor has to advise customers like a doctor has to advise patients. The advice of a financial distributor may be more important than a doctor's advice as the advice of the former impacts future generations. In other words, the distributor must ensure the financial wellbeing of the customer. Ecommerce must ensure that transactions are taking place in a smooth matter, so that the financial advisor can spend more time to look after the interests of the client.

Shri Saurabh Arora said that digital distribution is helping add fresh customers. In fact, a large number of folios were added by the industry last year and 50 p.c. of these were added through digital distribution. In other words, customers are being added without spending a lot of time in meeting customers.

In response to a query on whether PayTM is a source of disruption, Shri Saurabh Arora said that PayTM is seen as a big opportunity for acquiring customers in the Mutual Fund business. The entry of PayTM is positive as it is focussed on adding customers.

According to Shri Arora, it is becoming easier to do KYC in India with only Aadhaar and OTP.

Smt. Lakshmi Iyer, CIO-Fixed Income & Head-Products, Kotak Mahindra Asset Management Co. Ltd. said that China has 120 crore people and 80 crore Internet users. India with a population of 120 crores has 50 crore Internet users. The US has 30 crore people, 80 p.c. of whom use the Internet. The point is that different countries are at different stages of digitisation.

Smt. Lakshmi Iyer said that robot advisory has been in place for many years. But, they have not made money. A smile is of value to a customer and a robot cannot smile. The US has 200 robot advisors. The technology of a robot advisor needs to be managed. Robots should be used as a tool.

Smt. Lakshmi Iyer said that 80 p.c. of trades in the US are done through algorithms. It will take sometime before algorithm based models come into the market in India. In this regard, artificial intelligence can be a powerful enabler.

Shri Madhu Sudhan, Head – Digital Business, Motilal Oswal Asset Management Co. Ltd. said that digital gives three things, namely scale, reach across the country and it optimises the costs of an organisation over a period of time. A large number of transactions are taking place on UPI. We are at the right stage of the digital curve. We have no option but to adopt digital technology.

Shri Madhu Sudhan said that a robot can acquire a customer with an expense of Rs. 4,000. A MF can earn revenue of Rs. 10,000 to Rs. 11,000 from a customer assuming he acquires a AUM of Rs. 10 to Rs. 11 lacs in a few years. The Digital medium provides an opportunity to acquire customers through Facebook and other sites. The basics of client acquisition can be easily learnt.

Shri Tanwir Alam, Founder & CEO, Fincart summed up the Session by saying that technology will help grow the Mutual Fund business. When you acquire a customer, you want to know where the customer will spend time. So, you go to Facebook and WhatsApp. Shri Alam has digitally acquired many customers. He advised all to perform monotonous work with technology and use technology to grow their business by leaps and bounds.

The **Second Session** was addressed by the following speakers:

Moderator: Shri Romit Barat, VP & Head-PMS & AIF, Narnolia Financial Advisors Limited

Panellists:

Shri Purushottam Saraf, Additional GM & Regional Head (East), BSE Ltd.
Shri Vipin Bhandari, Zonal Head-Retail Sales & Distribution (East), ICICI Prudential MF
Shri Arjun Chaudhuri, Regional Head-Retail Sales (East), DHFL Pramerica MF
Shri Aloke Sasmal, Director, Money Matters
Shri Rajesh Koradia, VP, Independent Consultants & Advisors Association (ICAA)

Shri Purushottam Saraf, Additional GM & Regional Head (East), BSE Ltd. said that everything is done electronically on BSE StAR MF - BSE's Mutual Funds Platform. It is a paperless platform and videos are available for all the processes. 12,500 IFAs are registered with BSE StAR MF.

Shri Purushottam Saraf added that today there are 1 lac IFAs and 2,500 IFAs are being added each month.

Shri Vipin Bhandari, Zonal Head-Retail Sales & Distribution (East), ICICI Prudential MF said that his company is advising Mutual Fund distributors to approach clients for equity. They are informing clients about Mutual Funds in general and not about any company in particular. Everyone in the industry is saying that 'mutual funds sahi hai'.
Shri Vipin Bhandari advised distributors to sell **discipline** with investments and **goals** to investors and not sell the returns that investors will make.

In its next campaign, ICICI Prudential MF will tell clients that debt instruments are good for investors and they should invest in Debt / Liquid Funds. The company will communicate to investors that investing in Mutual Funds is not just about equity investments but includes investments in Debt and Liquid funds.

Shri Arjun Chaudhuri, Regional Head-Retail Sales (East), DHFL Pramerica MF said that out of the total AUM of Rs 23 lac crore with the Indian MF industry on 21 July 2018, about Rs 10 lac crore is from retail investors. More and more retail investors are entering the market each month. In fact, about Rs 7,000 crores (or USD 1 billion) is being invested through Systematic Investment Plans (SIP) in equity mutual funds each month. Due to the large inflow through SIP, the traditional dependence of the stock market on inflows from Foreign Institutional Investors (FIIs) has sharply reduced.

Shri Arjun Chaudhuri said that Liquid Funds are giving a return of 7 p.c. per annum and they are eligible for indexation benefit for Long Term Capital Gains taxation purposes after three years. As a result, Liquid Funds face low incidence of tax.

Shri Rajesh Koradia, VP, Independent Consultants & Advisors Association (ICAA) said that it is important to moderate unrealistic expectations of investors from the equity market. In other words, if the expected return is not realised, then investors will be disappointed. Therefore, he tells investors that they will make a little more from equity than debt or Fixed Deposit and that their equity investment will not be a rollercoaster. In the end, investors are happy as they understand his message.

Shri Aloke Sasmal, Director, Money Matters said that an emerging country should have a P/E ratio of about 16x. The Indian stock market boomed between 2003 and 2007. Subsequently, by 2010, the market settled at the right valuation. We can expect a return from the stock market of the growth rate of GDP plus the inflation rate. So, if we assume the inflation rate to be 6 p.c. and growth rate of GDP to be 9 p.c., then we can expect a return of about 15 p.c. from the stock market.

Shri Romit Barat, VP & Head-PMS & AIF, Narnolia Financial Advisors Limited summed up the Session.

Rajiv Mukerji
(Deputy Secretary)