

Looking Ahead: Mutual Funds in India



Year 2009 could be termed a watershed year for the Indian Mutual Fund (MF) industry. The winds of change have arrived. In fact the India Mutual Fund industry has been ahead of the world in adopting change and the forces of change have begun to chart a new course for the industry. But as we all know, “change”, even for the better, usually is difficult to accept but in the end it brings growth and prosperity. What is clearly emerging from the moves being made by policy makers is that the industry is embarking on a volume based growth path. This means that there would be pressures on margins but they would be compensated by larger volumes. And larger volumes would call for appropriate marketing strategies.

Background

MF penetration is low at around 14% of GDP (GDP

= Approx. Rs. 53 lakh crore - *Source: Statistical Outline of India 2008-09*; Total Industry AUM = Rs. 7.4 lakh crore - *Source: AMFI*). As per the Invest India Incomes and Savings Survey 2007 of individual wage earners in the age group of 18 to 59 years, conducted by IIMS Dataworks, only 1.6 percent are invested in mutual funds (*Source: KPMG-CII Report*). Notwithstanding this the Indian financial market offers great potential. After all, there are 500 million bank account holders and the Gross Domestic Savings are pegged at 36%. However only serious players will succeed due to the large investments and huge commitments needed to dip into this pool of opportunities.

In this context, we have been fortunate to have seen such strategies play out successfully in the not too

distant past. The “sachet” phenomenon of the FMCG industry has been etched in several bestselling management books as case studies. And very recently the stupendous growth witnessed in the mobile phone industry was again around a volume driven “inviting price” strategy. Having seen their successes one can only draw encouragement from them. Consumer pull is set to become the key driving force for the industry. An appropriate strategy would be needed to unlock this potential.

While change has been adopted, the next challenge is to see how we adapt in this context where every constituent of the MF landscape would have a role to play. The various areas of the industry will evolve as we move into the future and some of these have been discussed in the next few pages.

Industry

The industry could undergo a wave of consolidation. The industry players of the future will be the ones prepared to invest purposefully in their brands, on services and in technology. The focus on volumes will increase. It will no longer be about selling more to the same people but more about selling the right products to a larger mass of retail investors. Focus on cost reduction will be high because sales, marketing and investor education costs would go up.

Evolving technology at a breakneck speed will be the biggest enabler in driving up productivity. Service levels will get a fillip up from new advanced technologies. Every available technology will be leveraged to bring down avoidable cost in order to increase the productivity of operations. Unless this is

done the drive to garner volumes will not gain momentum. There are 400 million mobile connections in India. The mobile platform will get busier by the day and web based technologies will gather pace to make both communication and transactions efficient.

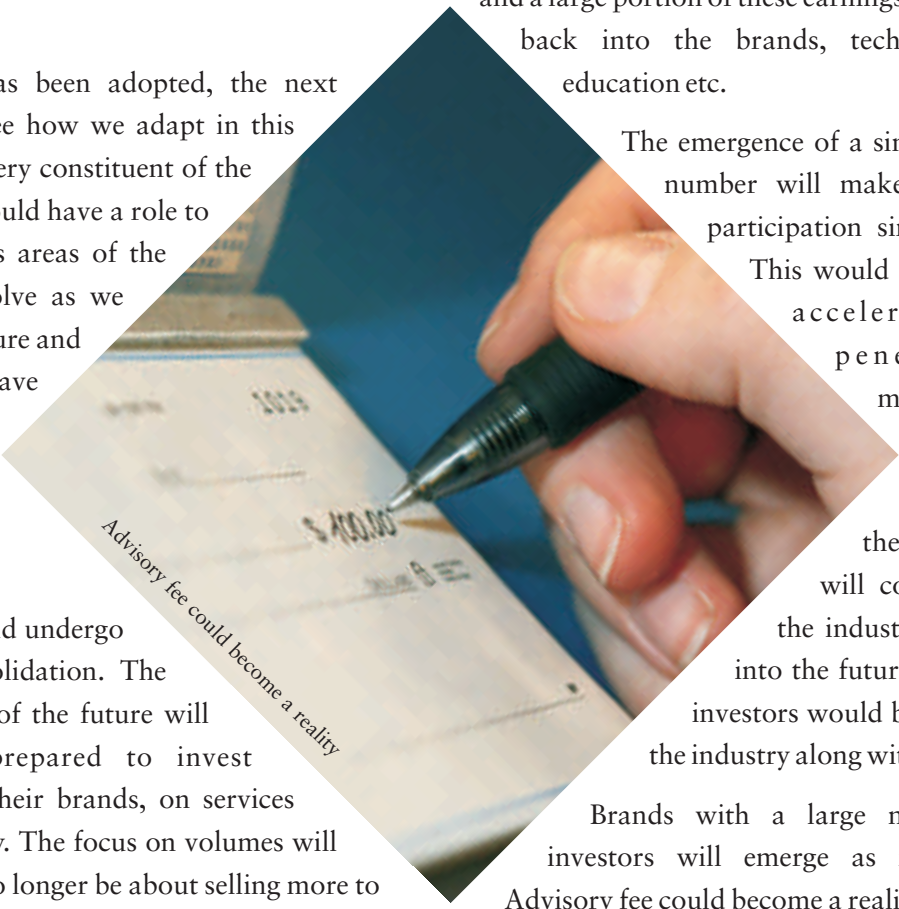
Manufacturers and distributors will both enhance their absolute earnings on the back of large volumes and a large portion of these earnings will get ploughed back into the brands, technology, investor education etc.

The emergence of a single identification number will make the process of participation simpler and faster.

This would go a long way in accelerating market penetration and market activity.

There is very little doubt that the retail segment will come to dominate the industry going forward into the future. The number of investors would be the “metric” of the industry along with AUM.

Brands with a large number of retail investors will emerge as industry leaders. Advisory fee could become a reality in keeping with the evolving nature of investment instruments. While astronomical returns will become a rarity with most returns hovering around the benchmark index, the investor will seek to maximize his opportunities across investment instruments. The system will make it easy for him to ensure that his money works a lot harder and in keeping with this savings account will lose some significance going forward. This will give a new lease of life to fixed income products like liquid funds.



Distribution

The marriage with technology will give distribution an altogether new dimension. While city folks may not realize this, our fellow countrymen in the hinterlands are not integrated to the MF industry. But technology is on the verge of giving rise to one common “web based” transactional platform which will ensure that the efficiency of participation and interaction with MF products will become the same across the length and breadth of the country.

Distributor Houses have a great opportunity to ride this wave of change by scaling up their operations and building their own brands. Their positioning will undergo a sea change as they start to occupy the advisory and wealth management positions. The advisor’s stature will enhance from that of an ‘enabler’ to that of a ‘solution provider’ i.e. they will begin to assume a role perhaps as important as the family doctor. However, as a corollary, they will need to invest further capital into their business.

The distributors' advice will get customized and will be in accordance with the investor's life stage and would start resembling the approach of the life insurance agent. Dynamic allocation of assets with changing market conditions and life stages will become the kind of advice and service that will chart the future course. This would be the kind of service that would cement the client advisor relationship and ensure a steady stream of income for the latter.

Just as the financial meltdown in Wall Street has driven sense in the minds of many that chasing Y-o-Y growth is not sustainable, in the same manner advisors will have to embark upon a different path to fulfill the client's lifespan investment needs. He will transform from being a transaction provider to a solutions provider. Thus, all kinds of products ranging from fixed income, insurance and equity products will be wrapped and made into a single offer. Manufacturers will work closely with distributor partners and set joint goals and they too are likely to set up huge distribution companies. IFAs will band together under a common brand umbrella that could take the shape of a franchisee model. Quality of outlets would improve going forward. Not only will it bring a dash of professionalism but would also enable the advisor to charge a premium.

Products

Products will get simple. The idea will be to show more than to hide. The biggest communication challenge will be to simplify and clarify. Product pruning and consolidation could be seen in the future. All in all, product complexity will reduce and sensible financial planning will come to the fore. SIP will gain prominence: Small priced products like SIP will become the drivers of this movement. They would be the future drivers of business. They could revolutionize the market just as the “sachets” did for the FMCG industry and “pre-paid” did for the telecom industry. These small value products are endowed with the potency to rip open the market potential.

Indians have always been in favour of fixed income products. The large pool of Bank FDs is a reflection of this. Hence these products would gain importance and one could see them casting a larger shadow in the investor's portfolio. Hence efficiently managed fixed income products will have a larger role to play in the days ahead.



Retail product would get a lot simpler. A minor wave of product consolidation could help in this cause. The significance attached to “risk” as a key parameter of investment would substantially go up. The gap between product performances with the benchmark for most diversified funds could start diminishing as the size and pace of the industry starts gaining momentum. Pressure on management fees could also increase as “returns” start inching towards the benchmark. Market segments would get distinct and it would get easier to customize products. Structured products would evolve and consolidate. Proliferation of new products would get curtailed. Very few new products can be expected to dawn upon the landscape unless of course blessed with a significantly unique value proposition.

Investors

Investors will be made to feel more integrated and would make informed investment decisions.

Investor expectation would change from chasing highest returns to sensible investment planning. Financial planning will find its rightful place in the sun and would evolve in the way it was envisaged. The investor, as in the case of other products, will gravitate towards the brand that aligns to their own self belief. The brands that grow and flourish in the financial landscape would be those that engender “a feeling of trust” around the brand persona.

Understanding and comprehension of products would improve. This would be aided by design of simpler products at the retail level. Investors would get a lot more conscious of the risk attached to their investment products. The global meltdown in the financial markets has given “risk” an altogether new dimension. While returns will continue leading the pack of financial products, the dangers of being at full throttle have been ingrained in the minds of investors and will continue to guide their investment decisions.

Hence risk will come to play a dominant role in investment decisions.

Lower income investors will be taken into the fold: The investment culture will seep deep into the social landscape. Just as “pre-paid” unlocked the potential of the telecommunications sector by lowering down the ticket size, one can expect to see similar dynamics play out in the investment landscape sooner rather than later. SIP ticket size could reduce to as low as Rs 50 per month or even Rs 10 a day. New technologies would drive down the cost to such an extent that extending these facilities would cease to be a challenge.

Pricing

A differential pricing environment could emerge in keeping with the investor segment and fund management expertise and attention. As such, various packages are being designed in keeping with the service levels that could be offered. In the early days, one could expect to see investor resistance to pay for service or negotiate hard. But as the value proposition being offered would get clearer, such resistance would give way to a larger acceptance to pay for the perceived value and service being rendered to them. The margins of MF manufacturers are likely to get squeezed in keeping with the expenditure that needs to be made towards brand building and education. The role of technology gains significance in this context to rein in the cost and build up productivity.

Training and Learning

One could expect to see organizations backing their marketing plans with substantial investments for training and learning. Thus playing “lip service”

didyouknow?

The number of mobile telephone subscribers in India stood at 494.07 million at the end of August 2009.

alone will not suffice in the future. Education will become the bedrock to bring about the growth in the industry. Quality of personnel will get enhanced. Training and learning will gain prominence giving rise to professional finishing courses. Knowledge dissemination in friendlier formats would gain importance. One could see mobile and web based learning models play a key role in perpetuating knowledge. Financial literacy levels will rise and over time become an integral portion of the curriculum in colleges.

Engagement with investors will become intense. Investors will want to know more and effective comprehension and communication will become the biggest challenge for advisors. The changes will evolve the advisory role even further.

Communication and Media

Brand building in the MF industry was nearly non-existent. Communication was mainly centered on “information”. One can see this certainly changing going forward. More emphasis on the brand building will come to the fore. Brand building while being necessary will not suffice by itself. It will become imperative to run “Knowledge Management” programs for the investor so that the investor feels empowered to take educated decisions.

Communication will increasingly be around the image and value of the corporate brands. Brands will forge stronger relationships with investors. The trust in the brands will be a function of the brand's ability to partner and guide the investor through his lifespan. Abrupt and impulsive style will lose traction.



Mobile based learning models could play a key role in disseminating knowledge

Mobile and internet will become dominant platforms. Those who are unable to comprehend this opportunity will find their brands getting obsolete and irrelevant.

All in all, 2009-10 is thus all set to become the harbinger of change for the Mutual Fund industry and would re-shape the various constituents that come together to form the industry.

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