

Published Date:	30 Sep 2023	Publication:	Mutual Fund Insight [National]
Journalist:	Bureau	Page No:	60
Circulation:	15,000		

**ANAND VARDARAJAN | Business Head – Institutional Clients, Banking, Alternate Investments & Product Strategy
Tata Asset Management**

‘Investors need a mix of both active and passive funds’

The AMC’s business head also suggests a way to deepen B-30 footprint



How has online access and delivery of mutual funds impacted the interaction between investors and your business? Looking ahead over the next decade, how do you expect this to evolve?

Peter Diamantes came up with

the 6D framework, namely Digitisation, Deception, Disruption, Demonetise, Dematerialise and finally, Democratise. This may not happen in sequence, but eventually, it shifts the power into the hands of the user when

it gets democratised.

We saw this playing out in the 90s when physical shares got dematerialised and subsequently digitised with the proliferation of the ‘app’ economy. Digitisation removed information asymmetry and democratised the whole

Published Date:	30 Sep 2023	Publication:	Mutual Fund Insight [National]
Journalist:	Bureau	Page No:	61
Circulation:	15,000		

ecosystem putting the investor at the forefront.

We are seeing something similar play out in the mutual fund industry. Digitisation is improving speed, reach and efficiency. Moving from physical to digital has helped us reach Tier-2 markets and beyond faster.

It is fast replacing the brick-and-mortar models.

Digital accessibility is also driving costs lower, (also) aiding in the improvement of investor awareness and experience. With only a physical presence, the mutual fund industry could have taken much more time to witness today's geographical penetration.

Over the next decade, the introduction of algo-based investing, machine learning and data analytics could exponentially enhance the investment process and investor experience.

Before we look ahead to what digital could do over the next decade or so, it is relevant to look at some critical drivers in the past. The proliferation of smartphones and cheap data costs have helped make information available instantly. We have also become data rich as a country.

Information and/or timing asymmetry is gone, as there is more power in the hands of the consumer. There is another edge: behavioural. Being ahead or being wrong is often

indistinguishable. I believe that when investors are faced with volatility, there is behavioural asymmetry. I only wish this is addressed by using data and investor insight and calling out behavioural fallacies as and when they come up.

How have the above changes impacted distributors of different sizes and types?

While the degree of impact might differ, the impact across types and sizes of distributors has largely been positive. Leveraging technology to increase online presence has helped distributors of all sizes reach a broader audience.

For larger distributors, online access has helped reduce the need for a middle office, (which were previously) required for transaction processing. This is aiding them to increase face time with their clients.

Distribution in the non-digital world was largely linear. To grow, one had to widen their footprint and physical presence. (But) digital has made it very non-linear. The post-Covid world has moved us to Zoom. Distributors have leveraged video conferencing, social media, and online platforms to communicate, distribute and fulfil client needs. Covid hastened the process of driving this behaviour from both the distribution and investor end.

What role do you see the emergent fintech sector play?

Fintechs have been able to challenge the incumbents by trying to create differentiated offerings and delivery platforms. By leveraging the digital highway, fintechs are taking mutual funds to every nook and corner of the country. Through their varied offerings, convenience and ease of execution, fintechs are able to cater to investor needs. (For instance), there are 'execution-only' platforms for savvy investors, while some fintechs have taken the RIA route to service their clients.

Apart from improving efficiency and reach, fintech platforms have created a niche of their own when it comes to algo-based solutions, an area that remains largely under-penetrated in our country.

Has the 'Mutual Fund Sahi Hai' campaign worked? What are the learnings from it?

The big shift we have seen here is from 'Mutual funds are subject to market risks' to 'Mutual Funds sahi hai'. Changing the campaign's narrative and tonality from a risk-first approach to how this is good for investors has helped.

Over the years, several campaigns highlighting the benefits of mutual funds have helped debunk misconceptions and reduce fear. These campaigns have brought positive reinforcement and allowed individuals to experience and experiment with mutual funds.

Investor awareness, coupled with handholding from advisors and the distribution community, has helped retail investors in volatile market phases like

“Digitisation is improving speed, reach and efficiency. Moving from physical to digital has helped us reach Tier-2 markets and beyond faster.”

Published Date:	30 Sep 2023	Publication:	Mutual Fund Insight [National]
Journalist:	Bureau	Page No:	62
Circulation:	15,000		

during Covid. Retail investors displayed remarkable maturity and continued to invest. Panic-driven exits were limited, as awareness and good advice kept investors from harm's way.

The impact of campaigns focusing on SIPs as a prudent way to invest is visible in the book growth witnessed over the last few years. The monthly SIP book has moved from nearly ₹3,000 crore in April 2016 to nearly ₹15,000 crore in July 2023. Given the increase in the tendency for individuals to save, we have seen conversations around SIPs being a competition for luxury car manufacturers.

1

How has the B-30 campaign fared? What more can be done to expand the geographical reach of mutual funds to smaller locations?

B-30 locations have witnessed 16 per cent CAGR over the last four years compared to 13 per cent CAGR of T-30 locations. The penetration levels can be much higher when it comes to smaller locations. The explosive growth of T-30 can be replicated better and at a higher scale for B-30 if the approach is tailored to their requirement.

(For this) mutual funds need to be simplified and explained in a language the investor understands. The 3 Vs - Video, Voice and Vernacular - would play a key role. The impact and efficiency of Video, the ease and familiarity of Voice over text and the comfort of Vernacular will help us arm investors to make informed decisions. With the 3 Vs, one can break the thicket of language, medium and text barrier.

“Given the increase in the tendency for individuals to save, we have seen conversations around SIPs being a competition for luxury carmakers”

How do you see the prospects of unified platforms like MF Utility and MF Central?

A large proportion of incremental flows are coming in through these platforms. This can be attributed to how these platforms have reduced the transaction processing time. Add to this, the open architecture makes it convenient for both advisors and clients to go through the process without having to create their own journeys. The distribution community has benefited from lower transaction time and improved efficiency.

Further, such unified platforms can be leveraged to improve the efficiency of non-financial transactions.

Is the supposed passive fund revolution real? Hypothetically, how will funds be pitched if comparative performance is not in the picture?

Since it's a hypothetical question, let me also give a hypothetical example. Imagine being in a Derby horse race where one is not provided with any information on the horses. In the absence of any information, there are only two things to bet on: a) the strength of the horse and b) skill of the jockey.

In the case of active mutual

funds, both the strength of the horse (fund type, i.e., large cap, small cap or multi cap) and the fund manager's skill would matter. (However,) in the case of passives, there is no skill required, as it will be driven largely by the category in which one is investing.

As markets become more complex and cycles get shorter, one needs to strike a good balance between active and passive funds. Both can co-exist. Because every investment need not aim to beat the market, some investments can be about meeting the market.

With passives, there is a tendency to think of 'broad market exposures'. But it's an evolving product, and we have been exploring differentiated and nuanced ideas like private banks, mid-cap momentum and new-age digital. Passive offerings need not be limited to broad market indices and can help investors take exposure to niche categories through a rule-based investing approach.

Active and passive funds are here to cater to the diverse needs of investors. Based on know-how, goals, costs and risk appetite, each investment can be seen through an active or passive lens. So, the active-or-passives question is best addressed as actives AUR passives.