

Mutual Funds – after a stupendous growth, the future ahead



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The Indian MF Industry has been one of the key pillars of financial services growth in India. The Industry has shown strength across all parameters including AUM, new investors, SIP book, technology adoption, regulations, transparency, geographical penetration, and soon.

In the last 10 years, assets have grown at a CAGR of 14% from Rs 6.7 lakh Cr to Rs

24.6 lakh Cr. In last 3 years, monthly SIP book grew from Rs 4,700 Cr to Rs 7,900 Cr and has been one of the continuously growing areas of the Industry. Investor participation has also been heartening – the Industry now serves more than 2 Cr unique investors. Indian MF Industry has always been well-regulated and there have been several investor-centric interventions from time to time. This makes the Industry stand out, and makes it an important domestic support for our capital markets.

Despite this growth, there is still significant potential for the Industry to grow in orders of magnitude. Currently less than 2% of the population is invested in Mutual Funds. To compare, the penetration levels of smartphones is nearly 40%. In terms of AUM, our Industry size is only 11% of the country's GDP. These data points, coupled with rising financial awareness and shrinking unbanked population, paints quite an impressive picture for the Industry's future. As the country continues to grow and financial awareness keeps rising, Mutual Fund Industry will play a pivotal role in the citizens' pursuit of wealth creation and financial freedom.

In the last few months, the world has been in the grip of COVID19 which directly and indirectly impacted almost all aspects of our lives. The Indian MF Industry has been no exception, with AUM falling by Rs 3.5 lakh Cr in March mainly due to market impact. This year also saw another simultaneous challenge in the form of credit crisis. This crisis especially highlighted the need for continuous improvement in risk management practices and emergency handling apparatus. Despite challenges, there was also a powerful positive impact in the form of rising Digital adoption due to the lockdown.

The first key theme going forward will be accelerating Digital adoption. This is a clear trend across industries and will continue to gain steam. It is very likely that in the future, the country-wide lockdown will be considered the

biggest catalyst for digital adoption across industries. Digital is already playing a part in MF distribution, advisory, payment avenues and customer service. Going forward, there are new areas of technology such as AI, blockchain, machine learning, etc which could contribute to various asset management functions. India is one of the countries that jumped past the PC stage of development and already is second in the world in terms of smartphone users at 50 Cr. The smartphone is a big step up since it can act as a means of payment and also as a storefront for various financial services. With the growth of digital MF distributors and robo-advisory platforms, there is a lot of scope for growth in this space given that investor awareness keeps pace.

The second theme for the future of the Industry is about seeking alpha over and above traditional investment avenues. Although this has always been one of the driving forces for investors to move towards Mutual Funds, the recent low interest rate environment could be a tipping point that brings in a large number of investors. It would be important for the Industry stakeholders to cater to new and unexperienced investors in a safe and sustainable way. In this regard, diversification and risk profiling will play a key role. The third theme has been building up over the years, which is the passive segment. ETFs have grown in favor among investors, especially in the last few months. In FY20, ETF proportion in Industry assets has moved up from 5% to 7%. This is a testament to the gradually growing maturity of the Industry and the investors as well – since both active and passive strategies can play a role in the investor portfolio based on their goals.

We are now truly in the new world order, with fresh challenges and trend-breaking changes along with new opportunities. However, there will be several areas that are likely to remain untouched. One such area is distribution and advisory services. With new influx of investors, especially from smaller locations, there would be even more need for hand-holding and for more detailed financial advisory services. There are certain areas like shopping, where digital has taken over from brick-and-mortar outlets. However, as far as financial decisions are concerned, human touch is likely to play an important role. Right from risk assessment to goal setting and portfolio allocation, a financial advisor plays an important role 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 could be one of the most important barometers of the Industry's success in next 10 years.

The Indian growth story is firmly in place and the new 'Aatmanirbhar Bharat' is in a unique position to step up and become the fastest growing economy of the world in the years to come. Despite the current environment and resulting challenges, I am quite optimistic about the long term growth opportunity of the Indian MF Industry. Retail participation has been on a sustained growth path. In addition to this, the strong adoption of SIP investments

and Digital services will lead the Industry to the next phase of growth. The Mutual Fund industry is one in which all stakeholders – investors, AMCs, distributors, regulator can jointly succeed in making India financially stronger and bring long term wealth creation to investors. It is with this optimistic thought that I look ahead into the future of this Industry.
