Has Mutual Fund Industry come of age?

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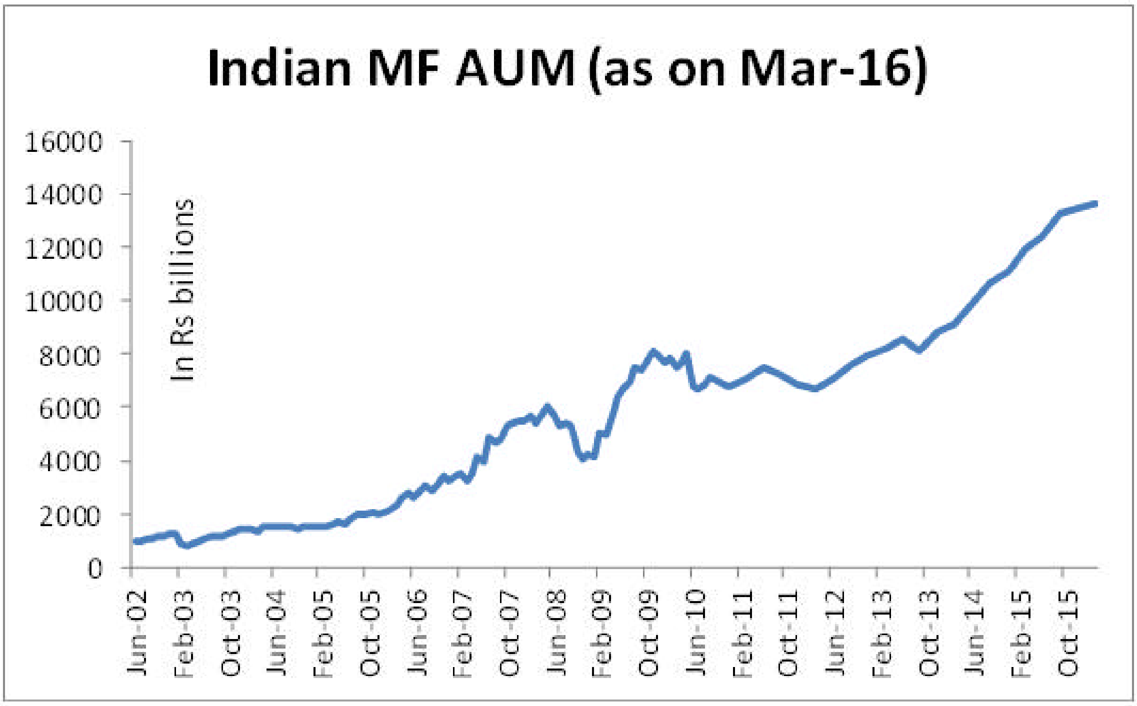
Frankly nothing that is growing comes of age. It may mature, but till the time you grow – aging is far away. That much for academic posture. But the point remains.

Mutual funds industry was born in a statist license raj era. Far away from global best practices or under a careful regulatory eyes. From that time period, we have moved miles and miles in the direction of sharp competition, investor centricity, and performance orientedness. So yes, mutual funds have grown sharply since the industry opened up for competition from private sector. Today at around Rs 13 lakh crore aum, the height looks dizzying. But - once the MF concept really takes off and seeps into deep Indian geographies- and once India grows out of the fixed income fetish – today's numbers may look like a pygmy.

Today the long term median performance of the equity and the debt fund managers may show a higher growth rate than what the world's most renowned gurus can claims. This has not come randomly. This was the product of a growing economy, booming industry, fast paced reforms, high end professionalism and rising appetite for domestic assets (by FIIs and HNIs).

Our industry today is considered one of the best and most ably regulated sectors in India and in the world. SEBI has performed a stellar role in gradually landing the aum boom and bust of the 2000s using string of measures to a sustainable rate. SEBI through a series of measures has boosted credibility of mutual funds over a period of time.



Moreover, the absence of long legacy in infrastructure allowed the mutual funds, the distributors and the regulator to quickly scale up the technology ladder. This technology enablement and investor awareness mission was able to rake in around 20% cagr growth (industrywise) in AUM over last 4-5 years.

But that does not mean that journey is completed. There are miles to go before we can take rest. For one, the product basket is still not widely expanded. The regulatory bindings prohibit funds in commodities or real estate sector in meaningful manner. Even in equity, long short fund remains out of bound. This limitation keeps the investor invested only in one direction and does not give them the benefit of choice.

Similarly, there is disinclination towards allowing a commodity fund. While gold funds did see the light of the day, not many other commodity varieties have been made available for scheme creation. The merger of FMC into SEBI may see some movement in this regard.

SEBI also has to work on level playing field between old and large fund houses vs new and smaller fund houses through common asset allocation and consolidation of schemes. The largest mutual fund in developed world normally have less than 1/3rd market share vis-à-vis India's top most MF.

Another thing that must be allowed or reformed is the tax status of Equity FoF. Despite effectively allocating more than 65% in equities such investors suffer the debt taxation status. This regulatory structure is badly affecting the growth of the FoF industry sub-segment.

But, the size of wealth the industry has created is tremendous. And it is no surprise that many folios have struck along. Today there are more than 4.76 crore folios and around a crore of SIPs underway. If industry is able to protect and care for these investors and their expectations, then we would have created millions of word of mouth publicists. Given the fact that market momentum is building up towards new growth trajectory, this suggests only a beginning, and inflexion point to a new start -And good news for mutual funds and its investors.

For this, the industry also needs to infiltrate into deeper reaches of India. The Top 5 cities still continue to contribute around 72% of the industry aum. The bottom 15 cities contribute around 0.39% to the aum. This disparity needs to be removed. The necessary KYC infrastructure, R&T service providers and accessibility to informed distributors also needs to spread.

Right now, the predominant mutual fund related information is English centric. That needs to change and knowledge in local languages would need to get pre-eminence. We at Kotak AMC are making these changes so that simple concepts get voiced regionally using that area's mother tongue. We are doing this because the small-towners need all the more convincing and education to drive home the basic point that investment avenues other than those provided by banks/ post offices exist - and are profitable.

It is our strongly held belief that the day mutual fund seeps into rural India in the fashion that it has amongst the Top5 cities, the country will see transformation. The wealth creation and capital formation alone would see spurt in living standards and reduction in information asymmetry. In simple words, the quality of savings by rural India would help reduce poverty and ignorance.

For that reason, the investor awareness programme (IAP) assumes high importance. IAP is imprinting subtle possibilities in minds of young Indians. But that alone is not sufficient. Mutual funds as a concept must be inculcated as part of official curricula for students of commerce and business. Presently, most college courses do not even engage in teaching about basics of mutual Funds. For an industry as important as ours, this must change.

The industry also must look at expanding the distribution base across the length and breadth of the country. We have around ten thousand active agents distributing Mutual funds. In comparison to us, Insurance industry has created around 30 lakh insurance agents selling various insurance products. This distributor base in insurance has been built on the quality and quantity of remuneration their agents receive. This difference is seen in the widespread reach and penetration that insurance industry vis-à-vis the mutual funds. This must change for the better of everyone – the investor, the distributor and the investment manager.

Wishing you Happy Investing!