Exploring untapped sections of the Indian market

India's vast Aadhar card-holder base provides a great opportunity for fund houses to expand operations leveraging on the JAM trinity. The industry is focused on creating awareness among consumers about various mutual fund investment schemes, says Franklin Templeton Asset Management's Sanjay Sapre.

During its 23 years of operating in India, Franklin Templeton has built a sustainable business understanding local cost and revenue dynamics. In particular, it has looked to develop deep relationships with distributors to create a strong asset mix. As a result of these efforts, it can count close to over 3 million investors (by folios) in its funds.

Yet Sanjay Sapre, the firm's president in India, believes there is lot more scope to develop the business and broaden the investor base.

"Currently a PAN card is a mandatory document for a mutual fund investor. However, the country had only about 55 million individual taxpayers at the end of 2015-16, out of which roughly about 15 million are mutual fund investors. So the industry has already tapped 33% of taxpayers," he explains.

"Being a discretionary product, this is a good number from a penetration perspective but the immediate opportunity can be seen in bridging this gap. With the opportunity to tap investors based on Aadhar (biometric identity) card, the eligible population suddenly shifts from taxpayers to non-taxpayers, which are much larger in number. The wide gap between taxpayers at 55 million and Aadhar card-holders at close to 1 billion is a huge untapped opportunity for the mutual fund industry waiting to be tapped."

Also, it is important to leverage technology as an enabler to improve distribution reach across the length and breadth of the country using the 'JAM' trinity (Jan Dhan, Aadhar and Mobile connectivity), reducing costs and improving the ease of investing in mutual funds.

With innovations such as Aadhar, for example, asset managers have the ability to target relevant individuals. "With government initiatives like Jan Dhan (people's wealth), roughly 60% of Indians have opened simple bank accounts and 1 billion people out of the population of 1.3 billion have been issued Aadhar cards," explains Sapre.

SANJAY SAPRE
Franklin Templeton Asset Management

It is also estimated that of the over 55 million portfolios (mutual fund accounts) at the moment, some 15 million are unique which means that many individuals may hold multiple or joint accounts in two to three combinations.

SUCCESS FACTORS

The three pillars for the business to be successful are, in Sapre's opinion, awareness, advice and access.

The starting point (awareness), he adds, is increasing financial literacy and continuing the industry-wide efforts in terms of investor education on mutual funds.

In line with this, the Association of Mutual Funds in India (AMFI) has been running commercial ads on local TV channels to clarify to investors that mutual funds are not only for the rich, are not only invested in equities and don't lock-in money forever.

"It is about busting the basic myths of mutual fund investing," adds Sapre.

Franklin Templeton's approach is to build trust with clients and distributors alike. "We have a 20 year-plus franchise of strong long-term performance and are here for our customers," he explains. "Since awareness about mutual funds needs to grow, they need to be sold through distributors who explain all aspects about mutual funds to investors before selling. There is a need to widen the network of distributors as most of the selling is happening mainly in the metros. Newer channels may either be through more bank branches selling mutual funds or individuals like agents of other financial products, retirees and entrepreneurs wanting to enter financial services."

Adds Sapre: "We also need to see how distributors can use technology to sell mutual funds so as to reach a wider audience. With the JAM trinity in place, it could be a good medium to target new investors."

PRIORITIES

He says that one of the firm's areas of focus is digital technology, to enable it to reach the maximum number of investors.

Today, distributors can attract investors from multiple geographies because of technology. Being digital helps them spend less bandwidth on operational aspects using features like distributor enabled transactions. They can therefore invest more time on investor engagement, education and new client acquisition.

Investors, too, benefit with the convenience of access from even the remotest corners of the country. "With the progress of e-KYC and centralised KYC (c-KYC), we have arrived in a new digital world where every step of the process from on-boarding to transaction processing can be a quicker and seamless experience, which can help enhance investor participation in mutual funds," explains Sapre.

Another priority is to expand the firm's market share. It is placed well in equities and fixed income, but he says the firm is seeing good flows into alternatives and hybrid products in the industry. "So we need to address the product gaps we have."

A third objective is the large untapped opportunity where money is sitting in the banking system, earning low returns for clients. The savings and deposit accounts fetch 4% and 6% respectively while mutual funds have the potential for better returns on a post-tax basis.

INDUSTRY HURDLES

More broadly across the wealth and asset management industries, Sapre says there are not enough advisers.

At the same time, he thinks the industry is facing operational difficulties which need to be solved.

For example, while the c-KYC concept announced by the regulator is a positive step, there is a lack of a level playing field amongst mutual funds and other products.

While mutual funds are significantly more regulated and restricted in terms of what firms can compensate advisers, insurance is a bit more liberal.

But given such a lack of a level playing field, the investment opportunities and the depth of the markets – both in terms of debt and equity – it is important that growth is commensurate with GDP for the industry to keep going.

"There should be continued engagement with the regulator and a long-term plan for the development of the mutual fund industry as a sector which includes reaching target clients, creating a large distribution community, removing the arbitrage between mutual funds and other products, and giving the ability to manage insurance and pension assets," urges Sapre.

He says the servicing standards in India are very high, but it remains a geographically-diverse, paper-intensive industry that lacks much automation at this stage.

"We need to help our advisers adopt the right technology, be more efficient in doing business and give them tools to demonstrate their value-add," he adds. ■