

Indian mutual fund industry on the right track

Aashish Somaiyaa, Chief Executive Officer at Motilal Oswal Asset Management, says that the Indian mutual fund industry needs to invest in due diligence and risk-control to build on its stupendous recent growth.

THE INDIAN MUTUAL FUND INDUSTRY has evolved well over the times, and only needs a few more self-improvement tweaks to develop it further, according to Somaiyaa.

Take the risk-free rate, for example, he says. “When I started my career, the risk-free rate used to be 11%, and the government used not to charge tax on those govern-

ment bonds,” he says, indicating the ‘safe investments’ oriented market environment back then. “So in just about 15-20 years, we have deregulated, and we’ve also liberalized the capital markets, invited foreign participation, and liberalized our product offerings,” he states.

“And at the same time the industry has kind of gathered a track-record and credibility,” he notes. “We are scaling pretty rapidly, and the regulator has also nudged us in the direction of investing into a level of distribution in far-flung areas of the country.”

“So, I don’t think there is anything which is holding us back,” he says noting that Indian capital markets are becoming more efficient and more transparent, and all kinds of structural difficulties like interest rates and regulation are also being ironed out.

“So, I don’t think that there is a need to do anything different at this point,” he adds. “All we need is a stupidity prevention programme.”

Elaborating on that ‘programme,’ Somaiyaa notes that what can go wrong and is going wrong in parts, is that some firms indulge in troublesome sales practices or set wrong expectations with clients. “For example, there are certain funds which are equity-oriented in nature, but insist on declaring a dividend every month from their past surpluses.”

“There are millions of people who invest in these funds with the hope that they will get a monthly dividend,” he explains. “I’m sure that there will be a day when their hopes will be belied, and then how they will view the whole industry, not just a particular player, is going to impact everybody.”

The industry, Somaiyaa advises, needs to stay away from aggressive asset gathering, unrealistic sales practices and instead invest in greater due diligence and risk-control. ■



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