Readying for an AUM surge in India

India's asset management industry is gearing up for a phase of high growth in the coming years, says UTI Asset Management's Leo Puri.

Asset management in India is entering a phase of significant expansion over the next few years, both in terms of AUM and acquiring customers.

"The industry should experience growth of above 25% over the next financial year, up from 14% to 15% in the current year," predicts Leo Puri, managing director of UTI Asset Management, one of India's largest firms in this space.

Two important catalysts are likely to drive this in the short term, he explains. "We are positive about the effects of demonetisation and its impact on the asset management industry."

He believes it will bring in fresh funds via new investors into the markets.

While this might well go into banks initially, he says that eventually, investors' search for yield and diversification will make them look at the asset management industry.

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LEO PURI
UTI Asset Management

WIDE SCOPE FOR GROWTH

By AUM, the Indian asset management industry is estimated at around INR16 lakh crore (about USD230 billion) with INR4.5 crore (USD45 million) in customer folios.

For an investor, a folio number (like a bank account number) contains information about the holdings in the schemes of a fund house. There is no restriction on the number of folios an individual investor can have with each fund house.

Another factor driving growth is that steps are also being taken at various levels to encourage the adoption of mutual funds.

For instance, there is a push towards easing the procedures for client onboarding, which has been a major barrier to date to client acquisition.

"Currently, various forms of KYC norms are in the process of being simplified," explains Puri, "such as eKYC, digital KYC, Aadhar-based KYC, and universal KYC with a centralised agency."

Once the teething problems are over, he says it will be easier to onboard clients who are already clients with banks or insurance companies.

There is also a thrust to improve digital capabilities.

Such platforms, he adds, will also enable distribution to scale up in a way that has not been possible through simple physical distribution.

Yet these changes certainly won't take place overnight.

"We do expect more banks, including public sector banks, to become more active in physical distribution in addition to all the digital platforms," says Puri.

Further, there are ongoing regulatory efforts to gradually permit the industry to expand its suite of offerings.

"In terms of scope, our markets are developing fairly quickly. We are seeing a few new categories of investment opportunities," explains Puri.

The Securities and Exchange Board of India (SEBI), for instance, is promoting the alternative investment fund (AIF) platform, which will allow for product innovation around real estate and structured credit – and eventually other forms of products such as infrastructure investment trusts (invITs).

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"We have a small domestic market for alternatives assets and private equity, but I think that will expand quite quickly over the next three to four years," he explains.

Of course, there is a balance to be drawn between aiming for simplification and consolidation in terms of product development, and also in ensuring a certain level of freedom and ability for firms to innovate.

While there are concerns in the market of there being too many products in the core business, it's likely the regulatory bias will be towards simplification, while the innovation could occur in relation to AIFs and other emerging platforms. Regardless, capital market sophistication must increase, stresses Puri. In line with this, therefore, product design must keep pace with it.

The demonetisation dynamic

In late 2016, the Indian government announced that INR500 and 1,000 notes, which account for roughly 86% of the cash in circulation in India, had been voided and could no longer be used for transacting.

People were given 50 days to either redeem their old notes for new ones, or deposit their cash in bank accounts.

This action was driven by the belief that INR500 notes were being used to finance terrorism and drive the black-market economy.

It has led to new money entering the financial system via banks – and eventually, this money is likely to seek a higher-returning asset, such as mutual funds.

Puri also anticipates a fiscal stimulus announcement by the government soon, which, he believes, will be good for financial markets, despite the global scenario.

MORE REFORMS TO COME

On the topic of regulations, it's clear that some significant changes are afoot.

A recent SEBI consultation paper shows an intent to follow a global trend of delineating those individual and organisations acting as distributors versus advisers, who will be required to act as 'fiduciary on behalf of clients'. As advisors, they will be paid directly by investors and not manufacturers. Under the draft rules, distributors will not be allowed to offer any financial advice to investors. This hasn't been the case so far. They have been able to offer advice which was deemed incidental to the sales process.

Going forward, it seems that distributors which want to offer advice will need to become Registered Investment Advisors within three years. If they don't make this transition, their functions will be limited to distribution and execution only. This could affect the mutual funds industry. Plus, the transition from distribution-led advisory to pure advisory will need to be supported, as Indian clients learn to pay for advice.

"It could lead to an acceleration in the role of passive products," says Puri, "because those are important components of portfolio building in advice-based operating environments."

"The transition from distribution-led advisory to pure advisory will likely face challenges."

A NEW ENVIRONMENT

Amid such challenges, scale, size and efficiency will matter even more to the industry than before. However, as in other parts of India's financial sector, the mutual fund industry is no stranger to tough regulations. It has endured these in the past in relation to commissions and compensation, and has absorbed the changes and ultimately become stronger. While there are concerns about the new consultative paper, there is also rising confidence that the industry will be able to tackle the challenges successfully. Notes Puri: "Anything that can improve trust on the part of the investor is a good thing for the asset management industry." ■

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2017 goals

UTI Asset Management has two key components to its business: a core domestic mutual fund business and a healthy offshore business.

The firm is also committed to building an alternatives platform and has a goal to become a leader in retirement solutions.

Of course, the relative size and scale of these different business areas are likely to change over time.

According to Puri, the firm has some key goals over the next financial year.

"First, we are in the investment business, so continuing to excel in that is a top priority," he says.

Since UTI is primarily a retail-focused player in the case of equity funds, consistency of performance plays a very important role in this, he adds.

Another strategic goal is to navigate and leverage the distribution shifts that are happening in the industry – whether physical or digital – and ensure that it can stay ahead of some of those shifts as they happen.

Further, the firm is also continuing to invest not just in its core mutual fund business but also in the offshore side of the operation.

"We can never become an asset management company of global scale and profitability unless we do all of that successfully," says Puri.