Six steps for a bigger and better products industry in India

Leading product gatekeepers within Indian wealth management came together at a roundtable organised by Hubbis in Mumbai in January 2017, to discuss factors that could improve prospects for the financial products industry.

With one of the highest growth rates in the world, India's wealth creation is happening at an astonishing pace. After taking more than half a century to become a USD1 trillion economy, the country added the next USD1 trillion in just seven years, joining the USD2 trillion club in 2014, according to the World Bank.

The economic expansion and growth in per capita income is now expected to lead to a boom in financial products, including mutual funds.

Against this backdrop, a thought-leadership discussion organised by Hubbis in Mumbai in January 2017, saw product gatekeepers gather to discuss the prospects and challenges for the product industry in the years ahead.

The key take-aways point to six clear measures for further growth in the country.

1. DEVELOPING DIFFERENT PRODUCT CLASSES

The Indian product landscape is currently hampered by a limited offering. Investment specialists depend on just a few assets at the moment – including bank deposits, insurance, mutual funds and equities.

Even the bond market is India is not developed enough to be accessed by retail investors, so remains dominated by institutional investors such as banks, financial institutions and pension funds.

In contrast, in most developed markets, customers who pay for advice have many more options, whether they are exchange traded or OTC (over the counter), such as foreign exchange and commodities.

To deepen and broaden the wealth market, access to a wider array of products for all types of investors is essential. And it's possible that the regulator will need to play a role. One way to bring about scale, for example, is by launching products via exchanges.

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2. INCREASING INVESTOR EDUCATION

Another way to improve the prospects for the financial products industry is investor education.

Currently, many investors are unclear even about the features and application of the simplest product offerings, for instance mutual funds.

In line with this, there is a need to launch comprehensive investor education programmes when new products are launched; incentives could also be offered to encourage a greater take-up among the buying public.

Currently, market regulators such as the Securities and Exchange Board of India (SEBI), and some of the stock exchanges, such as BSE and NSE, provide some initiatives along these lines, but more needs to be done, say market participants.

This would help India to increase its mutual fund AUM-to-GDP ratio – which at 7% (as of 2015) is significantly lower that 114% in Australia, 91% in the US and 51% in the UK, according to a report by EY-Café Mutual.

When coupled with the fact that mutual fund investments accounted for only 3.4% of total investment in financial assets by individual investors in the financial year ending March 2015, according to the report, it is clear to see the significant opportunity for growth of mutual fund providers.

3. DEVELOPING THE REAL ESTATE MARKET

The real estate market, which is highly popular with Indian investors, could be developed further with the introduction of REITs (real estate investment trusts).

This has the potential to be a big winner as Indians inherently gravitate towards property investments.

Further, the range of investment can be varied under REITs – from as low as INR1 lakh to INR10 crore.

To date, India has been trying for several years to introduce a REITs market, but for various reasons, it has failed to take off.

However, things could change in 2017 as local media reports suggest that Blackstone, the world's biggest private asset investor, is ready to list a REIT locally.

This is a development that could encourage local and foreign investors put money in India's real estate market in a clearer and more transparent manner.

4. ENHANCING PRODUCT INNOVATION

More innovation could boost India's financial products industry.

Currently, limited investment in talent and creativity on the product side hampers further the innovation process.

To a large extent, this needs to be driven by asset managers themselves; regulations can only help with new ideas up to a point, in the sense that they provide a conducive ground for experimentation.

However, some participants believe that many asset managers seem scared of failure. Yet innovation is key due to favourable demographics, rising income levels and a booming middle class.

5. INTRODUCTION OF NEW PRODUCT CATEGORIES

The industry could also benefit from the introduction of multi-asset class products – although, at least for the time being, this would require oversight of a regulatory body in charge of different asset classes.

Multi-asset solutions allow a portfolio manager to move in and out of various asset classes easily, depending on the market situation.

As a comparison, for example, in the past 12 months across Asia, multi-asset products have attracted interest from clients as the need and awareness of portfolio diversification grows, yet no single asset class has shown a clear lead in terms of growth.

6. REDUCING OVERLAP IN PRODUCTS

Fewer product overlaps would also help the mutual fund industry evolve and grow.

And indeed, the regulator has been taking action to ensure these are kept to a minimum.

In the past, the regulator has directed asset managers to either shut down similar schemes or streamline their offerings.

Local media reports say SEBI is nudging AMCs to consolidate existing schemes before launching new ones, while M&A is also being given approval only after the merger of similar schemes.

These are steps in the right direction as the mutual fund industry offers too many similar schemes which can be confusing for ordinary investors. ■