# The importance of advisers to India's funds growth

*G Pradeepkumar of Union Asset Management Company Private Limited explains why the country needs a much larger number of advisers to be able to encourage greater take-up of mutual funds – rather than expect growth to come from machines.*

The slow-but-sure growth of mutual funds in India will be spurred by advisers not robots, given the importance of creating a financial plan, monitoring it and keeping investors updated on new opportunities in the market.

"While lot of people seem to think we are going to replace the human interface by mathematical rules or algorithms that can do the job effectively, or even more effectively, I don't believe that because I think that each individual [investor] is unique," says G Pradeepkumar, chief executive officer, Union Asset Management Company Private Limited, formerly known as Union KBC Asset Management Company Private Limited.

His views are based on first-hand experience. G Pradeepkumar, an alumnus of Indian Institute of Management, Ahmedabad, says he has also hired an adviser to manage his personal portfolio. "In spite of having worked in the funds industry for more than 25 years, and in spite of having access to fair bit of information, it is my conviction that my personal financials are best left in the hands of somebody who can spend time and resources to manage that. I don't have that," he explains.

## FILING THE GAP

The challenge for the Indian market as a whole, however, is the shortage of advisers.

This seems to be a key factor holding back the wealth management industry, not just the penetration of mutual funds.

If there were more advisers to sit in front of clients and explain to them why it makes sense to invest in funds, as well as highlight which kinds of funds would make sense, the industry would grow much quicker. "We face a problem of too few advisers," says G Pradeepkumar. "We probably need 10-times the number of advisers that

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we have." The number of mutual fund distributors is probably only 10% of the total number of insurance agents in the country, he adds

"I see no logical explanation for why it has to be that way. The gap has to be bridged."

## UNTAPPED MARKET

While 90% of people in India have exposure to bank deposits, just 10% are invested in mutual funds.

Union Asset Management Company Private Limited intends to capitalise on these opportunities in the market. Indeed, when it launched a new product in February 2017, more than 70% were first-time investors in mutual funds.

He estimates the total number of folios in the market to be more than 55 million as of March 31, 2017. Considering duplication, best estimates bring the number of unique investors to around 10 million.

"For a market like India, this is a ridiculously low number," he adds. "We want to increase the demand in B-15 cities by reaching out to every possible corner of the country and inculcating a healthy habit of savings through mutual funds."

One area for the industry which has grown significantly in the last 18 months is the count of Systematic Investment Plans (SIPs), which stood at more than 13 million accounts at the end of March 2017.

SIPs represent individuals signing up to invest a fixed amount on a pre-decided day of every month, quarter or half-year, etc. India is witnessing investments equivalent to USD700 million per month approximately through SIPs.

For mutual funds to hope to see growth of a similar nature continue in a country of expanding wealth – and move beyond 10 million unique investors – regulatory requirements such as KYC norms must be ironed out, not duplicated for every new purchase.

"[Investors] can't understand why they have to go through the whole grind again," says G Pradeepkumar. "That is the real problem we are facing in the industry today."

## PROGRESS NEEDED

Being the vice chairman of the Association of Mutual Funds in India (AMFI), he acknowledges the effort and hard work by AMFI to simplify the KYC process, with due support from SEBI and the Government of India.

Although not an easy fix, he is confident the industry can find a healthy solution. "The concerns from the Government are very valid, especially in terms of money laundering. Mutual funds should not be used as conduit for that," he explains. "But at the same time, mutual funds today have controls in place such as not accepting third party payments."

When looking at all the funds which flow through the banks, mutual funds hardly ever accept cash deposits, and if they do, it tends to be for very small amounts.

"If the KYC has been done by the banks and we don't accept third-party payments, the real risk [of money laundering] from a mutual fund perspective is relatively low," says G Pradeepkumar.

What needs to be done to boost the penetration of mutual funds, he believes, is to make the process of investing in these products easier for the average investor.

**"We face a problem [in India] of too few advisers. We probably need 10-times the number of advisers that we have."**

Further, a key goal for the industry as a whole should be to increase financial literacy, adds G Pradeepkumar.

"Equities as an asset class has provided superior returns over long periods and mutual funds are one of the best investment vehicles to participate in equity markets," he explains.

"We need to change the age-old cultural attitudes from fixed rate of returns to market-driven returns." ■