Why simplicity sells in India

Simple product offerings and a long-term vision are important for any fund house which wants to be successful in India, says Milind Barve of HDFC Asset Management.

Simplicity in the product offering is crucial if India's mutual funds industry wants to gain more traction among domestic investors.

The INR16 lakh crore mutual fund industry (about USD230 billion) is equivalent to about 7% of India's GDP – which, according to a recent report by EY-CafeMutual, is a proportion that is much lower compared with developed markets.

Yet the industry has grown strongly in the past few years, with 2016 being one of the best since 2010, according to some local media reports.

Although this is cause for optimism, a number of historical factors suggest the tide will take longer to turn. For example, Indians have tended to park their savings predominantly in banking deposits, and within that, government-owned banks accounted for 70% of those savings; this denoted a certain kind of investment behaviour – protecting principal first, following by a hunt for returns.

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MILIND BARVE
HDFC Asset Management

The asset management industry, as a result, has been on a mission to introduce more capital markets-related products to investors. And while there are niche players who look at the medium or higher ends of the market, it is equally important to cater to the smaller investors based outside the cities.

This is one reason why Milind Barve, managing director at HDFC Asset Management, is a big fan of simplicity.

Given the fact that millions of Indians still don't own a mutual fund, he believes products need to be straightforward so that they can be understood by potential investors.

This means the vast majority, which remains unaware of the benefits of mutual fund investing.

So, unlike a lot of experts who think the industry needs more innovation to cater to the more niche segment of sophisticated customers, Barve believes a balance is required.

"There should be innovation in terms of how a product reaches investors," he explains. "If you look at India and the kind of investors from which we want to encourage product adoption, just getting them to accept a capital markets-oriented product is the first step. If innovation comes at the cost of making the product complicated, I think there is no place for it."

The bigger innovation, he adds, comes from how differently distributor / channel partners can carry product offerings to an investor who has never bought a fund.

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STRENGTH IN SIPs

One factor that helped significantly in boosting the industry's AUM in 2016 was the growth in systematic investment plans (SIPs).

Nation-wide, close to 700,000 customers are signing up every month for SIPs, generating close to 12 million transactions. The average amount per customer, however, remains low: INR3,000 to INR3,500.

Notably, these are not products; instead, they represent a way of investing which is akin to dollar-cost averaging. This can help to breed discipline, such as inculcating a habit of saving regularly.

According to Barve, such growth in SIPs is a good sign that investors are not

HDFC's clear vision

In the case of HDFC Asset Management, which started 17 years ago, in 2000, being focused and sticking to a long term vision has seen it jump from 25th to one of the largest in terms of size in the Indian asset management space.

"While we have occasionally adapted the route we travelled, the destination has always been clear. We are long-term focused," says Barve.

Another success factor has been a distribution led model which has been able to successfully navigate and cover the country's length and breadth. This has been helped by the active role distributors have played in encouraging mutual fund penetration.

Importantly to help facilitate such efforts, Barve says that new investors entering this industry don't have unrealistic expectations of what mutual funds can achieve.

"I would give a lot of that credit in terms of creating that behavioural understanding among investors to distributors and asset managers alike."

Nevertheless, it's not all about AUM growth. "Size is important but we don't want to take our eyes off reasonable profitability," he adds.

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timing the market. It's also an indication of how the market is gradually maturing. Indeed, the average holding period under such schemes has also been increasing steadily.

A BOOST FROM CENTRALISED KYC

A further reason for optimism is the centralised KYC format.

This was introduced last year, enabling customers to provide KYC data with one financial institution and know that it might be used by other financial service providers, avoiding the need for duplication of time and effort.

> **"We want to deepen our relationship with distributors by increasing the frequency and quality of communication."**

Financial institutions such as banks, mutual funds, brokers, insurance firms and depositaries are then required to upload all KYC data to the Central Registry of Securitization and Asset Reconstruction and Security Interest of India (CERSAI).

With the teething issues largely over, the mutual fund industry is expected to be a big beneficiary over time, predicts Barve.

OUTLOOK FOR 2017

To capitalise on the potential he sees in India in general, therefore, HDFC Asset Management's focus over the next 12 months will be on maintaining a superior investment performance across both asset classes - equity and debt.

"That is the core of our business," says Barve. "People invest in our funds because they want a good investment outcome."

Part of achieving his goals includes more effort to improve the distribution network. This doesn't just mean adding new distributor / channel partners, but also improving the quality and depth of engagement with them. "We want to deepen our relationships by increasing the frequency and quality of communication," he explains.

And this is a key component of the strategy since distributors in India typically only sell what they believe is a good product. It's this type of potential which Barve sees that motivates him every day.

"There is unlimited scope to increase the scale of this business. There are no limits on growth for many decades to come," he explains. ■

Investing for social impact

Among HDFC Asset Management's many funds, one which Barve is particularly passionate about is HDFC Debt Fund for Cancer Cure, a fund that has a social intent – helping cancer patients.

The firm launched a three-year, close-ended debt fund in 2011, with the aim of donating part or all of the dividends generated to the Indian Cancer Society, a non-governmental organisation dedicated to helping cancer patients. "Money is distributed through 16 affiliated hospitals to patients," he explains.

Under this scheme, HDFC AMC also contributed money equal to the amount raised from investors so that the income generated for donations doubles. A second series of the fund was launched in 2014. Now, a third is being launched in 2017.

The donations have led to free treatment for more than 3,000 patients all over the country. "Given the size of the challenge, we are keen to scale up this fund. It is something we are very proud of," adds Barve.

It's also interesting that HDFC Asset Management launched this fund at a time when corporate social responsibility was not considered a priority in India. The situation changed in 2014, after India's Companies Act made it mandatory for companies of a certain turnover and profitability to spend 2% of their average net profit over three years on such activities.