

## 'MFs should start disclosing retail assets'

The mutual fund (MF) industry is gearing up to adjust to the new regulatory environment and market conditions. Exactly a year after Reliance MF was listed on the exchanges, its chief executive officer (CEO) **SUNDEEP SIKKA**, in an interview with Jash Kriplani, shares his views on how the industry can create business models that can deliver long-term growth along with profitability. Edited excerpts:

### How has second quarter (Q2) been for the industry and for Reliance MF?

The gross industry flows have come down sharply in recent months. But our focus on the stickier retail investors is yielding results. Our systematic investment plan (SIP) flows for Q2 were better than first quarter (Q1), while new SIP count is close to 100,000 for the September quarter.

### Do you feel scrapping of upfront commission will disincentivise small IFAs/distributors?

Globally, whenever volumes go up, there is a pressure on the fee structure. With new structure on total expense ratio (TER) in place, both the asset management companies (AMCs) and the distributors will have to relook at their business model. The fall in TER will have to be compensated with higher volumes. The stopping of upfront commission aligns the interest of distributors with the investors and AMCs, which is positive. However, for small independent financial advisors (IFAs), covering for the client acquisition costs can be a little challenging. Under the new rules, the upfront is only for SIPs, which is one per cent after a period of one year. So, all market participants will need to seriously relook at their business models. But one must remember that anything good for the investor, is good for the industry.

### When can we see investors return to liquid schemes?

The liquid category is highly dominated by institutional investors. Even in 2013, this set of investors had become risk-averse, which had triggered redemptions in the industry. Investor confidence should come



back as things stabilise in the corporate bond markets. However, there could be some consolidation in the liquid category. Rather than spreading out in different schemes and fund houses, investor money is likely to gravitate towards large-sized schemes and large fund houses. Some of this shift is already visible.

### How do you see the ongoing volatility affecting the industry volumes and profitability?

Different AMCs have different business models. There are AMCs that focus on institutional business and there are those that

focus on high net-worth investors (HNIs). However, unless a fund house doesn't take keen interest in building a retail base, it is difficult to realise the operating leverage potential of a fund management business. Our focus continues on long-term profitable growth by targeting retail investors.

### How far has the industry progressed on the retail front?

The MF industry was set up to meet the needs of the retail and small investors. While the industry has made some progress in the direction, there is still a long way to go. We feel it's time to move

away from overall AUM disclosure to retail AUM and retail investor disclosure, which will help in bringing higher focus and effort by the entire industry to deepen the markets.

### Can you elaborate on the rationale behind recent tie-ups with Vakrangee, Payworld?

We have entered a number of such tie-ups recently, such as Payworld, Svididhaa Infoserve, Vakrangee and Weconnect, giving us access to some 2,000 locations. Our focus was always on growing in small cities and towns. We believe there is a huge latent demand waiting to be tapped.

### What will be the role of traditional channels with digital on the rise?

In the past 12 months since listing, we have opened branches in 100 locations taking our total to 300 — the highest in the industry. Clearly, we believe that the traditional brick-and-mortar model remains important, given our thrust on B15 (beyond the top-15) locations. Digital channels compliment the traditional model. Our digital sales have crossed 100,000 in September 2018 — doubling in the past 18 months. So, for us, digital channels are as important as our branch network.

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### How do you see discontinuation of Aadhar-based e-kyc affecting growth of the MF industry?

The market regulator, Securities and Exchange Board of India (Sebi), is strongly focussed on technology. The regulator wants to make the process of investing and on-boarding of investors a seamless experience, which is also the need of the hour. The industry can expect a more enabling regulatory framework so that the investors have a paperless and faster experience. Our experience has been that more investors from smaller cities and towns are using digital mode of investing. It is not the metros necessarily driving the digital sales.

