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Innovations & Technology Based Initiatives in Mutual Fund Distribution Intermediation in India

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***ABSTRACT:** The world of financial services is changing in ways that are more dramatic than we would have foreseen even five years ago. Taking a leaf from evolving ecosystem around mobile telephony, many financial institutions are using smart technology to remodel their branches into smarter point of sale. This has given a genesis to a terminology of "emerging distribution intermediaries" in financial services. Mutual funds (MF) being the combiner of various savings instruments are regarded as the ideal investment vehicle for today's complex and modern financial scenario. But its penetration is poor. One of the major levers to increase penetration is innovations in distributing MF products. Considering this, Indian government & regulator have taken many policies reforms & IT initiatives towards increasing retail participation in Mutual Funds and equity markets in recent past. Through this paper, researcher has attempted to critically analyze these initiatives. Apart from highlighting various innovations in MF distributions, this paper will also highlight the present state of online Mutual Fund trading platforms. Further, the paper attempts to highlight the areas of concern, augmentation and intervention in this space.*

***Key words:** Mutual Funds, Innovation, Distribution, Financial services*

I. INTRODUCTION OF STUDY

The world of financial services is changing in ways that are more dramatic than we would have foreseen even five years ago. Taking a leaf from evolving ecosystem around mobile telephony, many financial institutions are using smart technology to remodel their branches into smarter point of sale. Almost every type of financial activity - from banking to payments to wealth management and more - is being re-imagined by technology. The last two decades have seen the Indian financial services sector underwent a transformation.

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Liberalization and other government and regulatory reforms targeted at expanding and penetrating the Indian financial services market. The one word which attracted center stage in these reforms was "financial inclusion". On the flip side technology is pervasive throughout our lives. Accenture's report in digital consumer in 2013 found that approximately one in three of these consumers access these sources at least half of the time through their mobile phone or tablet device, much more so in emerging markets. India today has one of the highest retail savings rates in the world but investors are still parking majority of their savings in physical assets like gold and saving. Penetration of financial services is very shallow (Refer Table I).

Table I - Retail Penetration of Financial services in India

Bank deposit (Deposits/GDP)	**Bank credit (Credit/GDP)**	**Insurance (Premium/GDP)**	**Pension** (Pension AUM / GDP)	**Retail equity** (% of total listed equity)
68	**52**	**4**	**1**	**4**
Source: - [1]				

Barring Banking products other financial services are not able to make enough inroads in our country. One of the key financial services for retail investors is Mutual Funds as it combines various savings instruments. Indian Mutual fund industry has grown rapidly in recent years (refer Table II).

Table II – Indian MF industry in terms of AUM (in crores)

Year	AUM (in crore) as on 31st December	Y-o-Y growth
2001	101822	
2002	122600	20.41
2003	140093	14.27
2004	150537	7.46
2005	199248	32.36
2006	323597	62.41
2007	549936	69.94
2008	615380	11.90
2009	794486	29.10
2010	675377	-14.99
2011	681708	0.94
2012	786544	15.38
2013	876921	11.49
2014	1051342	19.89
2015	1274834	21.26
2016	1646336	29.14
2017	2236717	35.86
2018	2362038	5.60

Source: - Data compiled from AMFI website

Figure 1 – Growth of Indian MF industry

MF industry has doubled is last three years. After 2012, onwards industry has grown exponentially cloaking consist double digit growth on year on year basis.

For the first time in the history of Indian Mutual Fund Industry in the month of January 2018 Average Assets Under Management (AAUM) has crossed 23 lakh crore.

Indian MF industry has witnessed various phases such as

- Phase 1 1964-87 was infancy stage,
- Phase 2 1987-93 was marked by emergence of Public sector players
- Phase 3 1993 – 2003 was known for entry of private players.
- Phase 4 2003 onwards is consolidation and growth. Digitalization of distribution channel.

Simply, Indian MF industry is enjoying unprecedented growth. At this juncture researcher would like to delve into following questions –

✓ What are the innovations happened in MF industry especially in distribution?

✓ Will these innovations be inclusive?

✓ How these innovations can be further augmented to attract retail investors towards Mutual Funds?

II. REVIEW OF LITERATURE

Researcher found numerous research pertaining to behavior of mutual fund investors such as [2], [3], [4], [5]. Lot many researchers studied expenses and cost associated with mutual fund investments viz [6], [7], [8]. Bulk of research has taken place about mutual fund manager's portfolio decisions and performance like [9], [10], [11], [12], [13].

There are wide differences across the countries in terms of how mutual funds are distributed. Let us start with mutual fund distribution channels prevalent in USA.

Mutual Fund distribution structure prevailing in USA is well described in various literatures. An official source for classifying Mutual Fund distribution intermediaries in USA is reports and various publications of Investment Company Institute (ICI). ICI classifies MF distribution channels into three types as shown in Table III: -

Table III – Mutual Fund distribution channels in USA

Type of Channel	Employer or Retirement Channel	Sales force Channel	Direct Channel
Channel Members	Employees are investing in defined Contribution plans through employers	Full service Broker	Direct Mutual Fund company
		Independent Financial Planner	Discount Broker or NTF (Non Transaction Fee) supermarket
		Banks	
		Insurance Agent	
Share of channel as on 2007	72 percent	20 percent	8 percent
Share of channel as on 2018	36* percent	49* percent	33* percent
Compiled from: [14] [15] *Total does not amounts to 100 as it was multi choice question in the study conducted by Investment Company Institute (ICI) USA.			

U.S. mutual fund distribution has been concentrated on personal or sales force channels comprising full-service broker-dealers, banks and agents. These sales force channels capable of penetrating the household or retail sector and which are compensated mainly on the basis of commissions. In recent years, discount brokers have made substantial presence in mutual fund distribution, compensating for reduced sales effort and limited investment advice by lower fees and expenses. As evident in Table 3, since 2007 – 2018 period it was seen that US households are increasingly seeking help from direct channels such as discount brokers and NTF (Non Transaction Fee) supermarket [15], [14].

Apart from USA, Europe is dominant region for Mutual Fund Industry. The European countries like Luxemburg, France, UK, Ireland and Italy are amongst top 10 countries in terms of Mutual Fund industry asset size. These five countries together manage more than 1/4th of total mutual fund assets of the entire world.

Even in Europe due to cultural habits and the ban on inducements have led to a noticeable shift towards Individual Financial Agents and online platforms in the United Kingdom and Holland over the last few years [16].

A closer look at United Kingdom shows that Investment Management Association (IMA) disaggregates Mutual Fund (referred as Unit Trusts) flow data by investor type and distribution channel into the seven Categories [17]. From retail investor's perspective, IMA classifies distribution channels into four types.

1) Direct investment from Mutual Fund Company
2) Independent Financial Advisor;
3) Tied sales force;
4) Private clients - refers to portfolio management services offered by banks, stockbrokers and law firms

Mutual fund distribution channel has been as a direct & indirect distribution channel [18]. It was also observed distinction of channels in the developed markets as personal distribution systems and direct response systems [19]. Personal distribution systems include all channels like agencies of different models and brokerages, banc assurance, and work site marketing. Direct response distribution systems are the method whereby the client purchases the insurance directly. This segment, which utilizes various media such as the Internet, telemarketing, direct mail, call centers, etc., is just beginning to grow.

In a nutshell, when it comes to distribution channels one-size does not fit all [20]. Multiple distribution channels are the key feature of insurance as well as mutual fund distribution. Categorizing distributions channels in India is a difficult task, in particular given the relatively poor disclosure by AMFI & SEBI of distribution activity in the mutual fund a (as compared with disclosure of performance data). Previous studies also encountered with this problem while conducting study on Mutual Fund industry in USA [21].

As per AMFI, mutual fund distribution channels are classified as corporate agents (including banks) and individual agents. As far as direct channels are concerned, mutual fund companies are exploring various ways to reach directly. Direct channels like mutual fund company's offices, websites, telephone, mobile, ATM kiosks are evolved in the recent past.

As researcher has already discussed how bank as a distribution channel is evolving worldwide. The bank channel has slowly realized its own potential and is now emerging as a big player for mutual fund industry [22]. Considering this, one should accord bank as a separate distribution channel.

In a nutshell, need for multiple distribution channels is obvious for both Mutual funds as low level of penetration of both the products, diverse needs of customers, low level of awareness amongst the customers, increasing number customers emphasizing service.

But the way Distribution intermediaries as classified by the regulators are increasingly becoming obsolete as newer and newer distribution channels are emerging.

In this dynamic set up, researcher would classify Mutual Fund distribution intermediaries for the purpose of study as below: -

1. Individual Mutual Fund agents / Individual financial advisor / Brokers.
2. Institutional or Corporate Agents (Group of people working together as a company or partnership firm, Mutual fund branch offices, National or regional level organizations operating through branches, Distribution houses, etc)
3. Banks.
4. Emerging & innovative distribution intermediaries (all those channels which are not covered by Sr. No. 1, 2, 3)

This research paper would try to explore emerging MF distribution intermediaries evolved in India and amongst similar global geographies.

III. EMERGING & INNOVATIVE DISTRIBUTION INTERMEDIARIES IN GLOBAL MARKETS

Globally, asset management companies are becoming integrated financial services companies. This made them, to revisit their strategies and distribution is not exception to it. As we have seen earlier, in many countries multi-pronged distribution approach is used. This section will discuss various emerging distribution channels developed pertaining to insurance and asset management industry.

Telemarketing Channel – Telemarketing is the process of selling, promoting, a product or service over the phone. These channel possess several advantages like human interaction facilitates two-way communication, immediate feedback, large coverage and cost effective. This channel has emerged in the countries where tele-density is higher and telephone usage is also higher. It has emerged in Thailand, Indonesia, and Vietnam. In Philippines, insurance companies bundled the life insurance products with mobile sales. Such kind of bundling tactics will not be possible in case of asset management industry. But surely telemarketing is useful for asset management companies to reach deeper in the market place.

Virtual Channels – Electronic kiosks, internet, mobile in increasingly used by financial services companies to increase brand awareness. Now these mediums can also be deployed as distribution channels. Lot of non-life insurance products such as travel insurance, motor insurance, health insurance is sold through kiosks. These kiosks can be installed in convenient location such as malls, hospitals, airports, etc.

As, Australia and South Korea both have high populations of internet users, internet as distribution channel has developed significantly. Internet channel is significant in attracting youths. Still many investors prefer to discuss product and its suitability with financial advisor or agent. Companies are also employing online financial advisor on 24/7 basis.

Worksite Marketing – Worksite or workplace marketing is the distribution financial products at the workplace, paid for by employees, but facilitated and endorsed by the employer. Worksite marketing is effective in well-developed and well regulated markets. Worksite market is prevalent amongst insurers in Malaysia, Thailand, and Australia. Countries such as Singapore, Hong Kong and Taiwan are likely to be markets where this channel will experience growth in near future.

Other forms of distribution channels –

Mall-assurance – Financial services are increasingly exploring the possibilities of selling financial products in supermarkets and retail chains. In South Korea, ING sales insurance via Tesco while in Philippines, Generali Insurance sales through SM group retail chains.

Selling through Shops – Companies are setting up shops to sell variety of financial services. Life plaza Holdings has 143 insurance shops across Japan and has 40000 visitors per year.

Direct Response TV (DRTV) – Korean insurance companies are selling insurance through DRTV since 2003. They label it as "homesurance". CIGNA has used DRTV channels in New Zealand and Taiwan.

Social Media – In UK, companies are using social media network to sell less complex products.

Schwab and Fidelity are two biggest examples of NTF (No Transaction Fee) supermarkets. [23] documented in detail the evolution of another forms of Mutual fund distribution i.e. NTF supermarkets. Rather an NTF supermarket acts as both financial institution and marketplace acting as an intermediary between investors and the mutual fund company. NTF supermarket does not get any compensation directly from the investor for buying or selling the fund. Instead, the Mutual Fund Company pays the NTF supermarket for "listing" the funds in this unified marketplace, as well as for servicing customer accounts.

NTF supermarkets offer brand recognition which is beneficial to small, specialized MF companies to market and distribute their highly differentiable products. These NTF supermarkets allow Mutual Fund companies to maintain the product focus while reducing shopping costs for investors. [23] also observed that these supermarkets also have implications for industry structure as investors increasingly rely on supermarket brand while determining the fund to purchase.

IV. EMERGING & INNOVATIVE DISTRIBUTION INTERMEDIARIES IN INDIA

A. One of the earlier innovations in MF distribution is online platforms. These platforms have started in 2009 by two leading stock exchanges in India i.e. NSE & BSE.

B. Investors can buy and sell schemes on the respective websites of the mutual fund houses by filling in their user name and a password or a personal identification number (PIN) to transact. These websites, however, do not give an aggregate portfolio view.

C. The other option is online transaction portals such as Fundsindia.com and Fundsupermart.com, which do away with the need to remember individual passwords or PINs. These portals usually do not charge customers.

D. Online brokerages such as ICICIdirect.com and banks, which require investors to open online investment accounts by paying a nominal fee to do their MF transactions.

E. MF Simplified, NSE's new platform for executing MF transactions without a DMAT account was launched in December 2014.

F. Amfi's MF Utility, a centralized distribution platform launched in January 2015. It offers an efficient "Transaction Aggregating Portal" that connects with key stakeholders including RTAs, Distributors, RIAs, Banks, AMCs, etc., thereby mitigating the risk relative to the current paper based transactions.

G. In September 2009, Leading registrar and transfer agents Karvy Computershare Pvt. Ltd and Computer Age Management Services Ltd (CAMS) have launched a web-based platform called FINNET to help small distributors buy and sell on behalf of the investors, and prepare and mail consolidated statements to them.

H. myCAMS started in September 2014 by Computer Age Management Services Ltd (CAMS) offers digital convenience for online Mutual Fund Investing. Investors can do eKYC, open new folios, view existing portfolio, check Mutual fund NAVs, set up Systematic Investment Plan (SIP), opt for Common One Time Mandate (OTM) and do more across Mutual Funds serviced by CAMS through a single, secure gateway.

I. Robo-advisors are a class of financial adviser that provides financial advice or portfolio management online with minimal human intervention. Financial technology startups like Unovest (25 fund houses available), ORO Wealth and Invezta (16 fund houses available) are Robo advisors operating in Mutual Fund space provides digital financial advice based on mathematical rules or algorithms.

J. Reliance MF has tied up with Digital wallets (Free-charge) so that users can part their idle money into liquid Mutual Funds.

V. CRITICAL EXAMINATION OF INNOVATIVE / EMERGING DISTRIBUTION CHANNELS FROM RETAIL INVESTOR'S PERSPECTIVE

One of the oldest innovative distribution channels is MF online trading platforms launched by stock exchanges. Table IV shows transaction statistics of these platforms since their inception.

Table IV At a glance view of Transaction statistics at MF online Trading Platforms in India

BSE Star MF trading Platform

Year	Average Daily Orders Received	Average daily trade Value (₹ Cr.)	Average size per trade (₹ Lacs.)
2009	41.06	1.04	2.54127
2010	159.38	1.29	0.80640
2011	382.91	3.63	0.94875
2012	964.56	13.43	1.39211
2013	1838.02	18.66	1.01533
2014	5066.68	39.52	0.77995
2015	11333.60	155.92	1.37569
2016	21437.28	232.77	1.08581
2017	52535.05	423.73	0.80657
2018	129251.73	623.36	0.48228
2019	190064.96	812.42	0.42744

NSE – MFSS Trading platform

Year	Average Daily Orders Received	Average daily trade Value (₹ Cr.)	Average size per trade (₹ Lacs.)
2009	49.05	0.20	0.41461
2010	53.15	0.51	0.95919
2011	358.64	2.23	0.62253
2012	775.38	6.08	0.78359
2013	933.36	9.46	1.01342
2014	1286.08	13.75	1.06934
2015	2552.73	22.77	0.89193
2016	7874.26	56.71	0.72023
2017	24622.66	122.81	0.49877
2018	45626.85	169.20	0.37084
2019	55200.70	260.71	0.47230

Source: - nseindia.org, bseindia.org

As shown in the figure below, both the existing MF exchange platforms - BSE's Star MF and NSE's Mutual Fund Service System, or MFSS - haven't done so well in initial years after its launch. Volumes have been thin and mostly driven by brokers putting money in liquid funds42.

But from year 2017 onwards number of trades increased significantly on NSE's MFSS as well as on BSE star. One of the reasons for change in trend can be attributed to SEBI's decision to relax DEMAT account ownership condition for MF investors to transact on these platforms. Probably, from 2014 onwards, number & size per transactions has increased exponentially especially on NSE's MFSS. But situation on BSEStar has not improved much. During these period NSE has augmented its platform by adding more AMCs, offering SIP facility, etc.

But volumes are small in relation to size of MF industry. Stakeholders are facing following issues while transacting on these platforms

- ✓ Current exchange platforms do not allow investors to switch in and switch out of schemes, do SIPs or execute non-commercial transactions.
- ✓ Units purchased take a day or two to get credited into investors' accounts.
- ✓ To redeem units, clients have to sign the demat slip and give it to the depository. The depository, in turn, submits the request to the fund house, which gives it to the Registrar and Transfer (R&T) agent.
- ✓ Distributors, too, were not keen to use the platform because of the ambiguity surrounding trail commissions.

Exchanges especially NSE are working on doing away with these glitches. In fact, MF Simplified, NSE's new platform largely addresses these issues.

Besides, the new platform offers a consolidated portfolio view and a single cheque payment mechanism, and does away with the need for distributors to hand in applications separately to the R&T agents.

Table V shows how far these online platforms do cover Indian MF companies.

Table V – Coverage of online MF platforms in terms of AMCs

Name of AMC	NSE MFSS	BSE STAR	AMFI MF UTILITY
Aditya Birla Sun Life Asset Management Company Limited	√	√	√
Axis Asset Management Company Ltd.	√	√	√
Baroda Asset Management India Limited	√	√	√
BNP Paribas Asset Management India Private Limited	√	√	√
BOI AXA Investment Managers Private Limited		√	
Canara Robeco Asset Management Company Limited	√	√	√
DSP Investment Managers Private Limited	√	√	√
Edelweiss Asset Management Limited	√	√	√
Essel Finance AMC Limited	√	√	√
Franklin Templeton Asset Management (India) Private Ltd.	√	√	√
HDFC Asset Management Company Limited	√	√	√
HSBC Asset Management (India) Private Ltd.	√	√	
ICICI Prudential Asset Management Company Limited	√	√	√
IDBI Asset Management Ltd.	√	√	√
IDFC Asset Management Company Limited	√	√	√
IIFL Asset Management Ltd.		√	√
Indiabulls Asset Management Company Ltd.		√	√
Invesco Asset Management (India) Private Limited	√	√	√
JM Financial Asset Management Limited	√	√	√
Kotak Mahindra Asset Management Company Limited	√	√	√
L&T Investment Management Limited	√	√	√
LIC Mutual Fund Asset Management Limited	√	√	√
Mahindra Asset Management Company Private Limited.	√	√	√
Mirae Asset Global Investments (India) Pvt. Ltd.	√	√	√
Motilal Oswal Asset Management Company Limited	√	√	√
PPFAS Asset Management Pvt. Ltd.	√	√	√
Principal Asset Management Pvt. Ltd.	√	√	√
Quant Money Managers Limited		√	√
Quantum Asset Management Company Private Limited	√	√	√
Reliance Nippon Life Asset Management Limited	√	√	√
Sahara Asset Management Company Private Limited			
SBI Funds Management Private Limited	√	√	√
Shriram Asset Management Co. Ltd.		√	
Sundaram Asset Management Company Limited	√	√	√
Tata Asset Management Limited	√	√	√
Taurus Asset Management Company Limited	√	√	√
Union Asset Management Company Private Limited		√	√
UTI Asset Management Company Ltd.	√	√	√

Source: - Researcher has compiled data from Websites of NSE, BSE and AMFI utility

But despite of so many innovations and its further expansion in terms of coverage; still retail participation in Mutual Funds is stagnant in terms of its share in terms of assets and number of accounts. If one would go through the numbers, you will find AUM percentage and account or folio percentage remained same (refer Table VI).

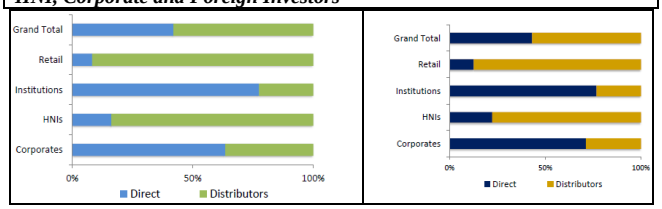
How where these direct channels were able to garner more retail businesses as only 8 % of total retail assets in January 2017 are coming from these direct channels as against 13 percent in January 2019 (Refer Fig 2). This two-fold growth is significant. But if we compare with global markets, still India lags considerably in terms of usage of technology based platforms while buying Mutual Funds.

Table VI – Retail Vs Non Retail Participation in Indian MF Industry

Year	Retail Segment		Non Retail* segment	
	AUM (in % of Total Assets)	Folio (in %)	AUM (in % of Total Assets)	Folio (in %)
Dec-14	**22.09**	**95.89**	**77.91**	**4.11**
Dec-15	**21.65**	**95.28**	**78.35**	**4.72**
Dec-16	**20.67**	**94.36**	**79.33**	**5.37**
Dec-17	**25.25**	**94.06**	**74.75**	**5.94**
Dec-18	**25.89**	**93.79**	**74.11**	**6.11**

Source: - Association for Mutual Funds in India (2017), retrieved from https://www.amfiindia.com/research-information/aum-data/age-wise-folio-data

****HNI, Corporate and Foreign Investors***



Source:- https://www.amfiindia.com/Themes/Theme1/downloads/home/T15-vs-B15-January-2017.pdf, https://www.amfiindia.com/Themes/Theme1/downloads/home/B30vsT30.pdf

Figure 2 – Channel wise composition - assets of Indian MF Industry

Indian investors are still new to the concept of Mutual Funds. There is dire need to create awareness as well as educate them about Mutual funds. The ability of digital based channel in terms advise is always constrained. This phenomenon puts these channels at disadvantage as they offer transactional convenience. Even the procedural aspects such eKYC, One Time mandate, FATCA compliance, etc. are cumbersome and needs to be simplified. There is huge opportunity for Indian Mutual funds to collaborate with distribution network of other financial services such as insurance, stock broking as these sectors do have larger expanse in terms of distribution infrastructure (Refer Table 8).

Table VIII - Distribution of financial services in India

Product	Regulator	Distribution channels	Key Numbers
Life Insurance	Insurance Regulatory Development Authority	• Individual Agents (36%) • Corporate Agents (12%) • Brokers (1.3%) • Direct (49%) • Banks • Digital channels	~11,000 branches, 22 lakh agents and ~700 corporate agents for life
General Insurance	Insurance Regulatory Development Authority	• Individual Agents (36%) • Corporate Agents (10%) • Brokers (22%) • Direct (31%) • Banks • Digital channels	~9,800 branches, ~600 corporate agents ~350 brokers
Stock Broking	SEBI	• Discount Brokers • Offline Brokers and Sub brokers • Hybrid (Online + Offline)	~14,000 brokers, ~42,000 sub brokers, ~360 depository participants, ~515 investment advisors, ~2000 Certified Financial Planners
Mutual Funds	SEBI	• Organized distributors (18%) • Banks (21%) • Independent Financial Advisors (IFAs) (21%) • Direct sales (40%)	1600 branches, 85-100K IFAs, ~500 corporate distributors, ~2000 Certified Financial Planners

Source: - [24]

VI. CONCLUSION

It has been observed that multiple industry participants such as AMCs, associations, R&T agents has come up with various digital channels and platforms. These digital platforms are evolving with the time as creators are engaged in augmenting these initiatives. Initially, most of these digital interventions were targeted to distributor community and large investors such as corporates and HNIs.

That is why these innovations were are not able to attract retail investors in formative years. Rather Direct channels are highly used by corporate and institutional investors. At the same time conventional offline channels are handholding retail investors and facilitating them to invest in Mutual Funds. We ourselves have created such a complex ecosystem that even the most intelligent investors find it difficult to invest money in Mutual Funds directly.

But investing through conventional indirect channels is costly as cost structure of indirect plans is higher. Rather in coming days if industry participants would use two pronged approach one for Top 15 cities where MF penetration is higher and other approach for rest of market.

These digital channels can further deepen MF penetration in top 15 cities where awareness is high. Rather there is an initial signs of uptick in terms of assets mobilized through direct route from Top 15 cities in India. Simultaneously conventional channel would continue to make efforts on Beyond Top 15 cities. Ultimately conventional as well as digital channels are going to coexist. The key to think beyond transactional convenience and augment it with more advisory elements through robotics, Block Chain, Artificial Intelligence.

Instead of working in silos, the need is to integrate these technologies to create seamless and holistic experience for investors. The mantra for industry participants is to collaborate with complementary organizations in the financial services industry and create value for stakeholders through digitalization.

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