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UNLOCKING THE ₹ 100 TRILLION OPPORTUNITY

ASSET MANAGEMENT INDUSTRY IN INDIA

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The Association of Mutual Funds in India (AMFI), the association of SEBI registered mutual funds in India of all the registered Asset Management Companies, was incorporated on August 22, 1995, as a non-profit organisation. AMFI is dedicated to developing the Indian Mutual Fund Industry on professional, healthy and ethical lines and to enhance and maintain standards in all areas with a view to protecting and promoting the interests of mutual funds and their unit holders.

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ASSET MANAGEMENT INDUSTRY IN INDIA

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FOREWORD



Mr. N. S. Venkatesh
Chief Executive
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OVER THE LAST FEW years, the Mutual Fund industry has grown by leaps and bounds. The industry AuM has grown by over 40% from 17.5 trillion in March 2017 to 24.5 trillion in July 2019. During the same period, monthly SIP contributions have almost doubled from 4,335 crores a month to 8,324 crores a month, reducing dependency on FIIs.

While this is indeed remarkable, in the global context this is still miniscule.

India ranked 7th in terms of nominal GDP, yet in terms of Mutual Fund assets under management India ranks 17th. In a country of 1.3 billion people, less than 2% invest in mutual funds; whereas in developed economies like US this figure is much higher. Clearly, the industry has a long way to go.

While Indians are increasingly moving away from physical savings to financial savings, the realization that to beat inflation they will have to change from traditional saving options to equities and mutual funds is happening at a much slower pace. While AMFI's investor awareness campaign, 'Mutual Funds Sahi Hai', is a step in that direction and has met with quite a bit of success, it will take time for ingrained habits to change.

With the government having set a target of becoming a \$5 trillion economy in GDP terms by 2024, it was required that the industry too set its sight on the future and plan to increase mutual fund penetration in the country.

This vision document would help us in setting the guardrails and give the industry a focussed direction to work towards. The document brings together the experience, insights, expectations from the entire mutual fund ecosystem including the regulator, distribution partners, service providers and even investors. We hope that the vision document helps each stakeholder to outline their role in the next phase of growth of the industry.

I would like to thank the BCG Team and everyone else who contributed towards this vision document.

PREFACE

THE ASSET MANAGEMENT INDUSTRY is a key pillar of the financial services industry as well as the country's overall economy. While the asset management industry took almost 50 years to build the first INR 10 trillion of AuM, the next INR 10 trillion was amassed in less than five years. The entire asset management industry in India including the AMCs, the industry bodies and the regulators have put in focused efforts to reach investors across the country with support from the channel partners. Increased focus on customer awareness, launch of new products and investor oriented regulatory changes have lent traction to these efforts. However, the asset management industry in India still has a long way to go. The asset management AuM as a percentage of GDP remains considerably low in India when compared to mature economies such as the US and the UK, and even developing economies like Brazil.

Through this report, we have analyzed the evolution of the asset management industry in India over the years, including shifts across key trends such as investor segments, asset class and geographic mix, and defined a vision for the asset management industry to deliver the next frontier of growth in the coming years. The report also summarizes key imperatives for different industry stakeholders.

The report has been prepared on the basis of robust analysis and insights from a variety of quantitative sources and qualitative discussions.

- 1. Stakeholder perspectives:** We conducted discussions with all major industry participants including senior management of AMCs, RTAs, investors and the regulator. About 20 AMC senior management discussions were conducted to understand their perspective on the key forces shaping the industry, challenges faced in execution and the contribution of channel partners in extending reach across the country. Similarly, inputs were taken from the senior members of the regulatory body on the overall vision and direction for the industry.
- 2. Global learnings:** An in-depth study was conducted on both developed and emerging markets to understand the journey of these countries in the asset management space. Global benchmarks were leveraged to provide appropriate context to the Indian story and identify future opportunities in the space.
- 3. Industry trends:** Data on Indian AMCs was leveraged from AMFI and select RTAs. This enabled us to build a deeper and more

granular view of the mutual fund industry. In addition, Google provided aggregate level search data which was used to study the digital trends in the mutual fund industry.

In addition to the research mentioned above, the report also incorporates several insights from BCG's deep industry expertise on the topic.

A few terms are used frequently in this report and refer to the standard terminology used by the industry. AuM refers to 'assets under management'. T15 refers to the top 15 cities as defined by AMFI in terms of mutual fund inflows; and B15 refers to all cities 'beyond the T15 cities'. Based on the inflows, the B15 cities are further classified into B15 (beyond 15), B30 (beyond 30) and B100 (beyond 100).

A few key terms are used interchangeably across this report:

- 1. AMC / Mutual Fund companies / Fund Houses:** Refers to the asset management companies which operate the funds.
- 2. Individuals:** Refers to the retail and HNI investors who invest with the AMCs.
- 3. Customer / investor:** Refers to the individuals / entities who invest with the AMCs.
- 4. Digital / online:** Refers to the internet channels used either for searching data or investing in funds.
- 5. Channels / intermediaries / distributors:** Refers to the third parties which distribute mutual fund products.

EXECUTIVE SUMMARY

GLOBALLY, THE ASSET MANAGEMENT industry plays a seminal role in the financial services industry, acting as a means to channel investor capital into the country's growth machinery. The Indian asset management industry has acquired rising importance in the country's financial services markets over the past decade. It has delivered substantial pace of growth and amassed more than INR 24 trillion in assets under management (AuM) as of June 2019, propelling India to be 17th largest asset management industry in the world basis AuM, up from being 22nd largest in 2008. In addition to providing the means for managing individual wealth, the asset management industry has played an important role in re-financialization of household savings over the last five years. Further, it has also supported the corporate growth story by bringing about the much-needed stability in the capital markets by becoming a key investor in the bond markets, thereby providing an alternative source of capital to corporate houses.

Multiple factors have come together to deliver this growth. Asset management companies (AMCs) have undertaken product innovation in the form of SIPs and alternative investment funds; improved reach and penetration in conjunction with channel partners to bring smaller investors into the pool; and generated investor interest through focused marketing and awareness campaigns. Regulatory changes focused on standardization of MF schemes, disclosure transparency, reduction in total expense ratio (TER) and commission guidelines have been essential enablers of growth while protecting investor interest.

The past few years have witnessed a significant evolution in the asset management industry in India. Individual investors have grown at a significant pace and now command nearly 58% of the AuM. Equity as an asset class has grown in prominence, now accounting for nearly 45% of the AuM as against 23% five years ago. A large share of this shift has been driven by increasing penetration across B15 cities that now account for nearly a quarter of the AuM. The channel structures too have evolved—while the individual investors continue to invest via the intermediaries, the influence of digital has grown significantly especially during the discovery or exploration phase. The institutional investors, on the other hand have increasingly leveraged the direct channel.

Despite the breakout growth observed over last 10-15 years, the Indian asset management industry continues to be significantly under-penetrated compared to other nations and other financial services in India. Mutual funds' share in the country's financial savings still is only about 6% and AuM penetration as percentage of GDP is at half

or one third of other developed countries like US, Canada & UK and emerging markets like Brazil. Further, the limited penetration of asset management products across Indian households (our estimates indicate a current penetration of ~7%), low geographic penetration in B30 cities where nearly 90% of Indian households are located and low levels of investor awareness — all indicate the significant growth potential for the asset management industry in the coming years.

The industry has the potential to cross INR 100 trillion in AuM in the twenties. Reaching the INR 100 trillion vision during the mid twenties can help the industry become the 11-13th largest asset management industry in the world from its current standing of 17th largest asset management industry. Our estimates indicate that achieving this growth will require a 5x increase in the investor base from 2 crore to 10 crore investors. We have identified three categories of market expansion that will be required to deliver this growth.

- **Distribution outreach:** Nearly 90% of Indian households are located in tier 2 cities and beyond. Increasing the reach beyond the metro and tier 1 cities will be critical to add the 8 crore new investors. The industry will need to rethink its approach for leveraging the current distribution network as well as building a more robust and sustainable network in tier 2 cities and beyond to capture its full potential.
- **'Inclusion' through simplification:** Bringing the middle income households (INR 3-10 lakh household income) into the mutual fund ambit is important; it will require a fundamental shift in the product proposition. Reduction in jargons, enhancing investor awareness across all categories of products and simplification of on-boarding processes will be key to target such households.
- **Deeper penetration into the savings wallet:** Sustaining and increasing the share of mutual fund products in the overall savings wallet will be necessary to improve mutual fund penetration. Improved awareness about the benefits vis-à-vis other traditional investment products, as well as more sophisticated products like PMS and AIFs will be required to drive this change.

Unlocking this INR 100 trillion potential will, however, require significant effort by all stakeholders in the industry. We have articulated a 7 point agenda for the industry to deliver this vision:

1. **Nurture and invest in 'newer customers':** Multiple large customer segments with different needs and preferences are expected to emerge over the next decade. The increasing prominence of digital-savvy millennial, the growing influence of women and the rising elderly population are all examples of 'newer' emerging customer segments. The asset management companies will need to rethink the product proposition and go-to-market strategy for these segments given their varying needs and preferences.
2. **Shift gears to accelerate distribution outreach:** A high touch model will continue to be relevant, especially in B15 cities as first

ASSET MANAGEMENT INDUSTRY—COMING OF AGE

time investors enter the asset management industry. Expanding the network of IFAs/RIAs, better utilization of the banking channel and increasing the utilization of online presence will be key to reach such customers.

- 3. Reimagine core customer experience:** Despite achieving scale and growth, the asset management industry continues to lag in delivering superior customer experience. Complete re-imagining of the customer experience will be required to on-board new customers and engage with existing customers. Investing in mutual fund platforms with simpler UIs, simplification of the KYC process and automation of the back-end will be vital to deliver on these aspects.
- 4. Exploit technology across the value chain:** Technology can enable asset management companies to target the trinity of risk management, lower costs and improved efficiency; and deliver seamless customer experience without compromising on any of them.
- 5. Leverage partnerships to expand capabilities:** The industry is constantly innovating in digitalization and technology to reach customers. Partnerships with fintechs, e-commerce players, and regional and small finance banks will complement capabilities in customer acquisition for the AMCs.
- 6. Awaken industry to self-governance:** Sharp focus on self-governance will be important as the industry scales up. New age technologies such as machine learning and artificial intelligence can be increasingly leveraged to improve self-governance.
- 7. Continued regulatory oversight and support:** Regulatory interventions have been focused on protecting investor interest which has served the industry well and should continue in the future. As the industry moves to target new investors and expand distribution, select regulatory enablers can play a key role in achieving the vision. Incentives for growth in white spaces, nationwide social programs (similar to USA's 401(k)) and investor awareness programs are areas that can provide a meaningful boost and impetus to the growth of the industry.

The industry stakeholders will need to make fundamental shifts across the above areas to realize the larger potential of the industry. This agenda will also ensure the industry creates a robust platform as it on-boards nearly 4x more investors.

In the recent few months, while the growth for the industry has been lower than last few years, the authors believe the underlying growth thesis has not changed. The participants in the asset management ecosystem are learning and pro-actively making changes to protect investor interest. This experience will make the industry more robust and better equipped to serve the greater interests of the investors.

INDIA'S ASSET MANAGEMENT INDUSTRY recently celebrated its 56th anniversary. Since its inception in 1963, the industry has gone through a transition from being a UTI monopoly to 44 asset management companies, crossing INR 24 trillion of assets under management in mutual funds. India now ranks #17 in the global asset management industry based on assets under management (AuM) and has surpassed China in its penetration as a percentage of GDP. The asset management industry has become an integral part of the country's financial landscape. It plays a key role in enabling wealth creation for individual investors and providing tools for long term financial security. Similarly, the asset management industry has supported the corporate growth story by deepening the bond market, enabling access to new sources of funds and improving corporate governance in the country.

The Journey So Far

It took the industry more than 50 years to amass the first INR 10 trillion of AuM. The next INR 10 trillion took less than five years. Refer Exhibit 1.1. The industry has come of age not only in terms of its growth and scale but also the maturity of its underlying elements.

Product portfolios have expanded with the introduction of innovative products like Systematic Investment Plans (SIPs) for the mass-

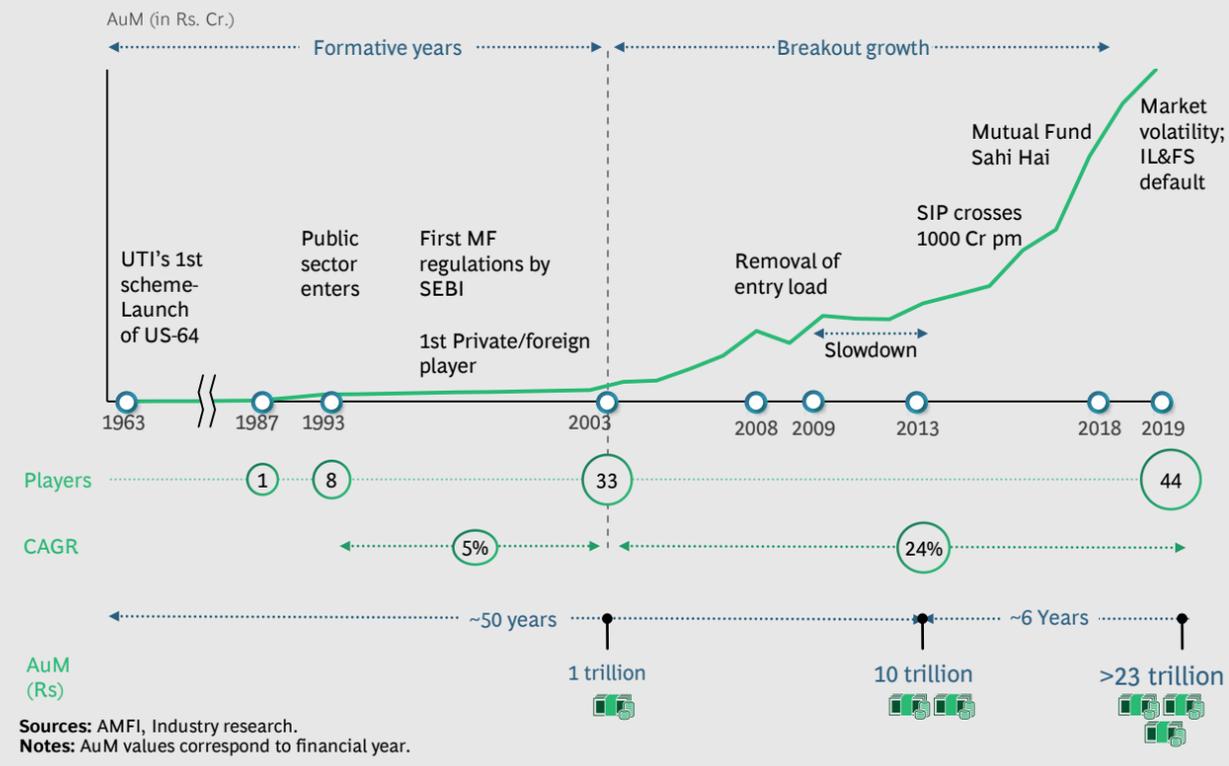
es as well as sophisticated products including Portfolio Management Services (PMS) and Alternative Investment Funds (AIFs) for high earners. SIPs became an India specific innovation and got the support of the entire industry. AIFs too have seen a sharp uptick with 71% growth in commitments raised in FY'19.

The industry also took progressive steps towards improving customer awareness with campaigns such as 'MF Sahi Hai'. The campaign resulted in on-boarding of over 50 lakh new investors within 12 months. This period also saw investments in technology with the launch of industry platforms such as MF Utility in 2011.

Regulations, too, have evolved to encourage growth and discourage mis-selling. Interventions such as removal of entry load, introduction of direct schemes, and additional commissions for distribution in B15 locations have provided the necessary enablers to drive growth in the industry. Simultaneously, regulations focused on risk profiling of funds, scheme name standardization and removal of upfront commissions have ensured that the industry continues to keep investor interest at its core.

The industry has made significant strides over the last few decades with positive contributions from all stakeholders.

EXHIBIT 1.1 | Evolution of MF Industry in India—Journey So Far



1963-2003: THE EARLY YEARS

For the first 25 years, India's asset management industry consisted of just one player, UTI; and just one scheme, US'64. The entry of public sector entities in 1987 saw the AuM grow 10-fold, from INR 4,600 crore in March 1987 to INR 47,000 crore in March 1993. It was a combination of the entry of private and foreign players (with the first joint venture between Kothari Group and Pioneer Fund from the U.S.), as well as the introduction of the mutual fund regulations in 1993 that set the foundation for long term growth and saw the AuM of the industry cross the INR 1 trillion mark in 2003. Refer Exhibit 1.1.

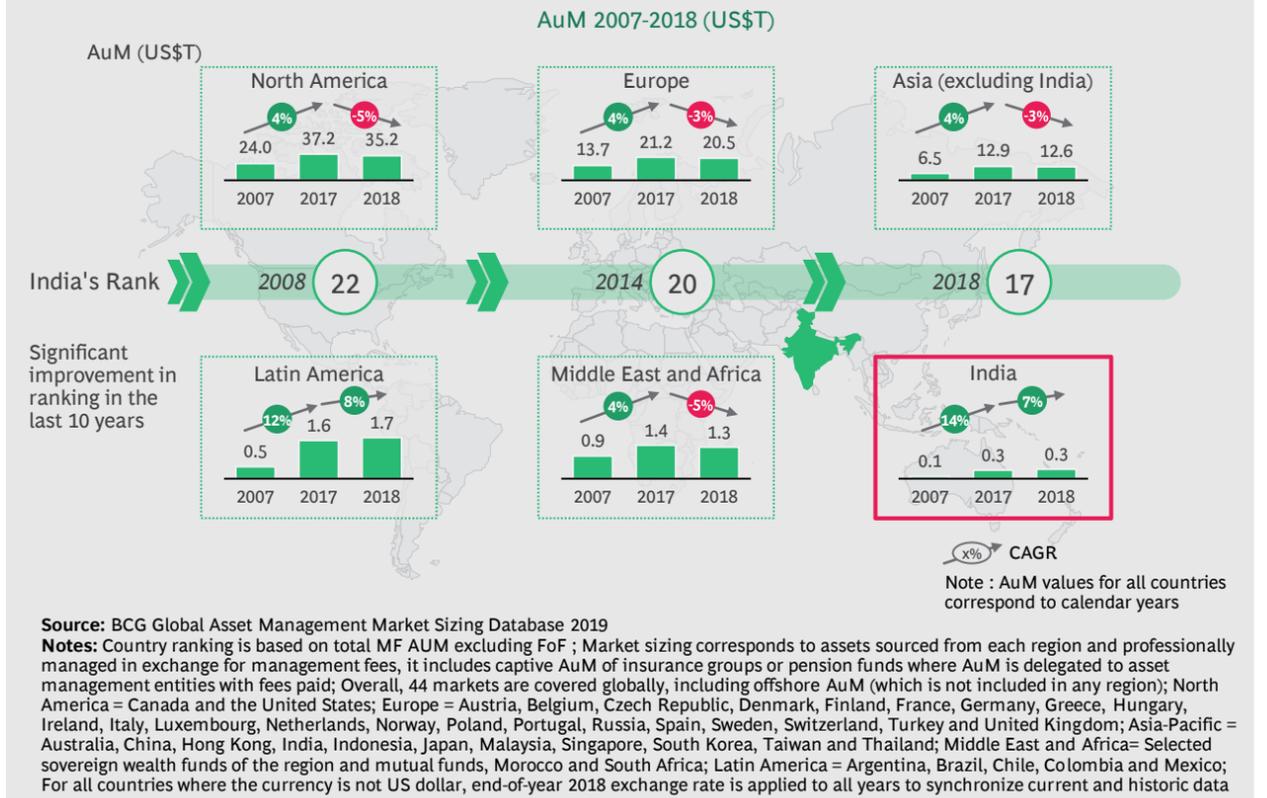
2003-2019: BREAKOUT GROWTH

During this period the industry amassed additional AuM of INR 23 trillion, registering ~24% CAGR. The 2008 global financial crisis and overall lower returns in capital markets led to a slowdown in growth; but the industry recovered well and out-performed other large markets by a significant margin. From 2007 to 2017, the Indian mutual fund industry delivered a 14% CAGR while other major markets such as North America, Europe and Middle

East grew by 4% in the same period. Refer Exhibit 1.2. This breakout growth was enabled by a number of reforms in conjunction with the launch of innovative products like SIPs and focus on customer awareness campaigns. The year 2013 saw the reduction of Security Transaction Tax (STT) for equity funds. Uniform dividend distribution tax (DDT), product labeling and direct plans were all introduced in the same year. In 2015, the Employees' Provident Fund Organization (EPFO) regulation was relaxed to allow investment in the equity market through Exchange Traded Funds (ETFs).

The industry, however, experienced slower growth in second half of FY'19. The NBFC liquidity crisis in the latter half of 2018 sparked by the IL&FS default brought select funds that had high exposure to short term paper of IL&FS and other NBFCs under the spotlight. The subsequent extension of maturities of FMPs by select fund houses due to technical defaults intensified the spotlight on the sector. The industry stakeholders including the fund houses and the regulator have, however, been prompt in taking corrective actions. The regu-

EXHIBIT 1.2 | India's Mutual Fund Industry has been Outperforming its Global Peers



lator took immediate actions including reduction in sector exposure caps, revision in valuation norms and tightened rating guidelines, amongst others.

During the same year, the global asset management industry saw a decline in asset levels for the first time since the 2008 global financial crisis. The value of AuM declined worldwide by 4% and the same trend was experienced across all major markets including North America, Europe, Japan and Australia. However, despite the challenging year, the Indian AMCs managed to outperform the global markets by growing at 11 percentage points higher than the global growth in calendar year 2018. Refer Exhibit 1.2.

Supporting India's Financial Growth

The mutual fund industry has made significant all round contribution to individuals and institutions alike. Growth in the mutual fund sector has resulted in multiple benefits for the larger economy. The share of financial savings in gross household savings has

reached 60% in FY'18 from 52% in FY'14. Refer Exhibit 1.3. The mutual fund industry has brought small ticket investors into the fold of investing and is also enabling an increased sense of financial security, with its focus on long term savings.

The corporate sector too has benefited, with mutual funds increasingly providing an alternative source of funding for their growth. Mutual funds have been a key enabler in deepening India's bond market. Further, a larger share of the AuM of individuals and domestic institutions has provided sustainability to the capital markets by reducing the bearing of volatility in foreign flows.

SUPPORTING GROWTH OF 'INDIVIDUALS'

The mutual fund industry has played a key role in the re-financialisation of household savings. The share of financial savings in overall gross household savings had fallen from 52% in FY'08 to 36% in FY'12, driven by the global financial crisis and muted market returns. However, the share of financial savings saw a sharp rise over the last six years and reached nearly 60% levels in FY'18. Mutual

funds played a key role in this recovery in financial savings, registering a 31% CAGR between FY'14 and FY'18 as against an overall CAGR of 15% in financial assets. This resulted in the share of mutual funds in overall financial savings reaching 6% in FY'18. Refer Exhibit 1.3.

Mutual funds have also played a key role in bringing smaller investors into the fold with expansion of SIPs, a push towards 'beyond (top) 15' (B15) cities and the 'Mutual Fund Sahi Hai' campaign. Systematic Investment Plans (SIPs) have proven to be a strong success and a major driver of this financial discipline among retail investors. Just the first quarter for FY'20 saw an inflow of Rs 24,543 crore through SIP - nearly 65% of the inflows into equity funds for the same period. The average ticket size of SIPs stood at Rs 3,070 in FY'19 with the total number of SIP accounts at 2.7 crores.

Asset Management industry has supported the growth of financial savings in B15 cities. The B15 cities accounted for 25% of the mutual fund AuM in March'18 up from 20% in

March'15. The AuM in B15 cities grew at 34% CAGR between Mar'15 to Mar'18 which was much faster than 21% CAGR delivered by T15 cities during the same period. Refer Exhibit 1.4.

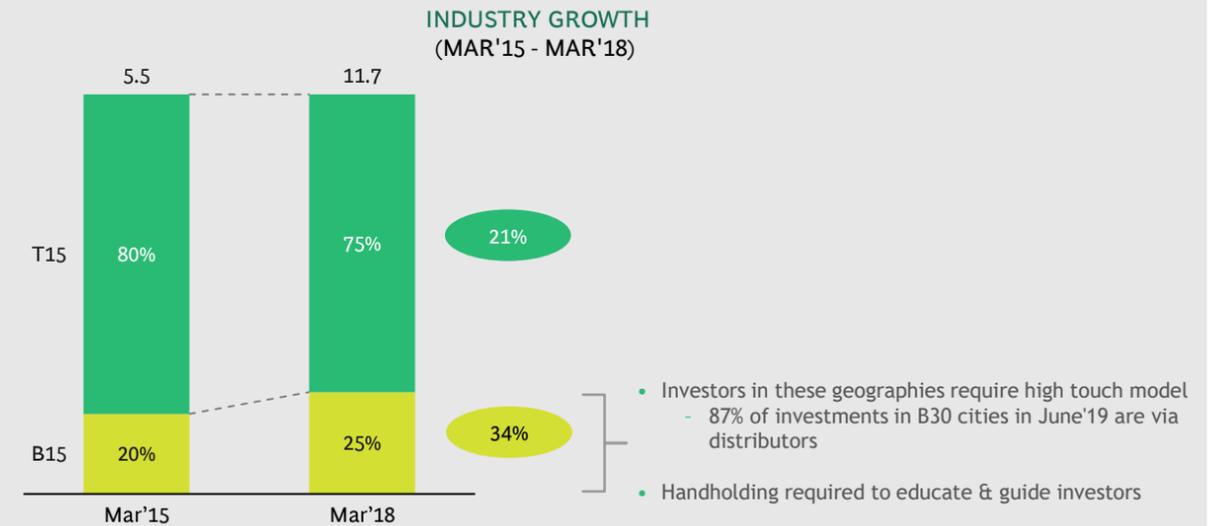
This growing popularity of mutual funds among retail investors is driven by the increasing realization that investments in MFs generate higher returns than any other traditional investment. Exhibit 1.5 shows the returns that different instruments would have generated over the last five and ten years. As is evident, the returns from MFs exceed those of traditional investments such as savings accounts and fixed deposits by 20-40% over a 5 year period and by 30-80% over a 10 year period.

The popularity of mutual funds has also been driven by the ability of the funds to consistently generate alpha. This ability to outperform the index has been observed across all categories of funds—large, mid and small cap.

SUPPORTING GROWTH OF 'INSTITUTIONS' Mutual funds have also proved to be a major source of growth capital for the Indian corpo-

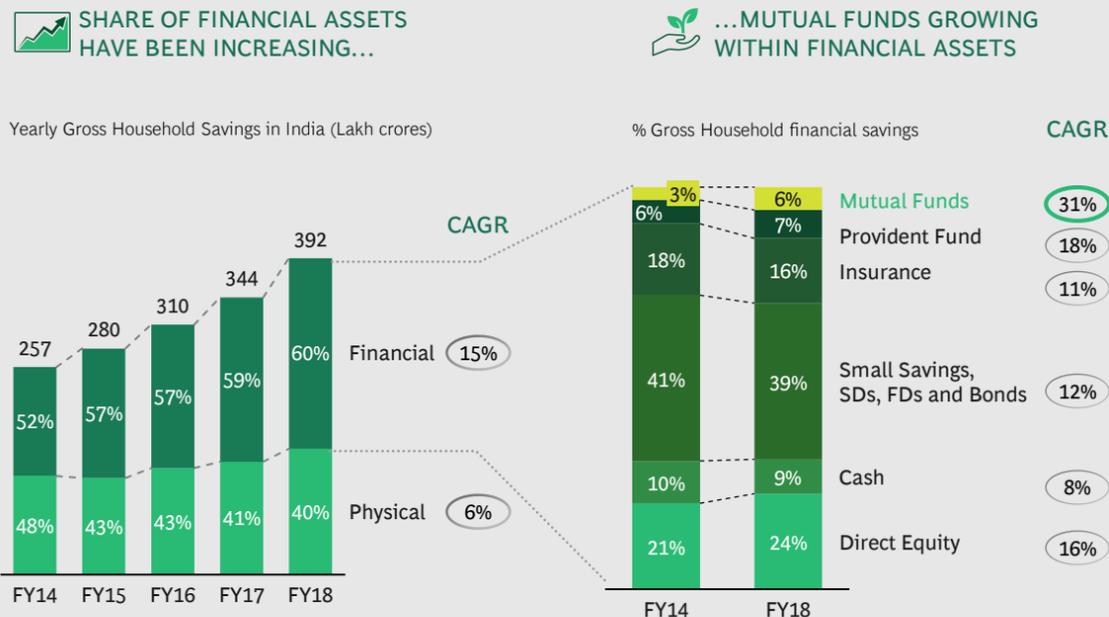
EXHIBIT 1.4 | B15 Cities Amongst Fastest Growing Cities

INDIVIDUAL INDUSTRY AuM DATA (RS LAC CRORE)



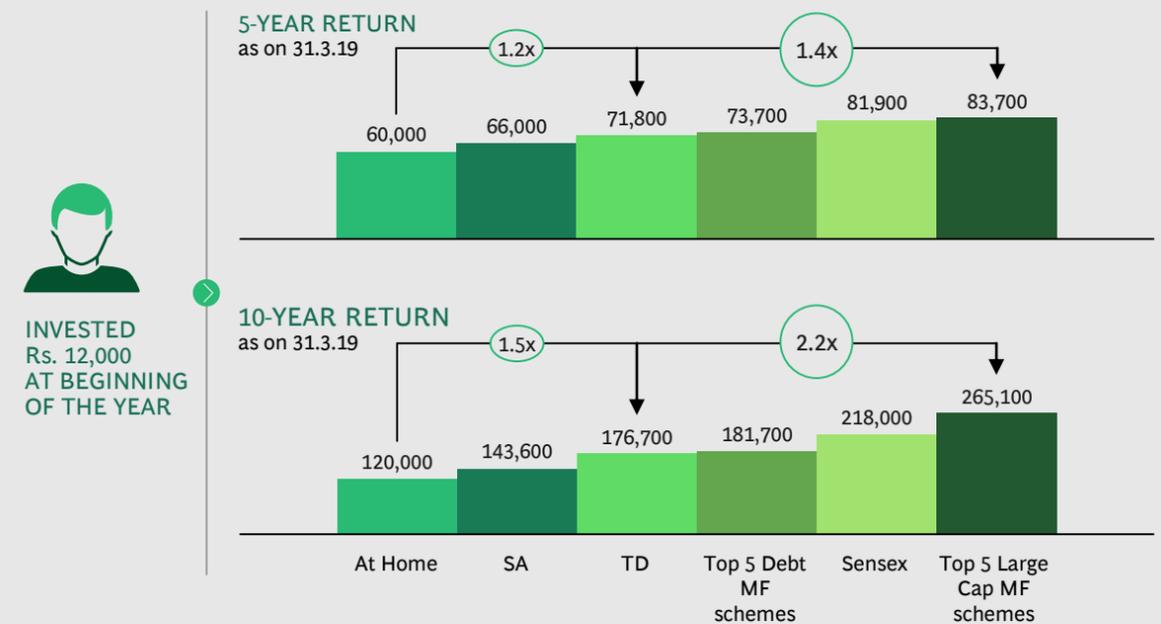
Source: AMFI
Notes: Industry AuM includes only debt and equity (liquid and ETF has been removed). Data is only for retail & HNI segments.

EXHIBIT 1.3 | (Re)financialisation of Savings



Sources: Karvy Wealth Report '14 '15 '16 '17 '18.

EXHIBIT 1.5 | MFs have Delivered Consistently Better Returns than Savings & Term Deposits



Sources: Value Research; Moneycontrol; SBI; RBI; BSE.
Notes: Tax rates for each instrument has been taken as follows: SA - 20.6%; TD - 20.6%; Sensex(LTCG) - 10%; Large cap MF(LTCG) - 10%; Debt MF(LTCG) - 20%; Tax on Debt MF Schemes adjusted for indexation benefit in return calculation; A constant return of 4% has been assumed for Savings Account (SA); Top 5 MF schemes considered basis AUM as on Mar, 2019; Direct growth plans of top 5 MF schemes considered for return analysis; Medium to long duration schemes considered for Debt MF schemes.

rate sector over the past decade. An analysis of the top 1000 companies listed on the BSE revealed that mutual funds hold more than 5% of the free float in more than 50% of the large, mid and small companies. In the primary market, MFs' investments in the public issues have risen—during 2017-18, MFs' investment accounted for 14.4% of the total size of public issues.

Mutual funds have also played a major role in deepening the corporate bond market by providing an alternative to bank loans for corporates. Asset management companies are a major participant in the Indian bond market, with ~16% share in investments in FY'18. Mutual funds' participation has seen a consistent increase with a CAGR of 19% between FY'12 and FY'18 in investments in the bond market. This has resulted in a steady increase in the share of debt funds in the total corporate debt from 3% in FY'12 to 16% in FY'18. Refer Exhibit 1.6.

In addition to being a source of long term debt, mutual funds have also helped corporates utilize their current assets better

through investments in liquid funds. Corporates can generate meaningfully higher returns through investments in liquid funds as compared to other traditional instruments such as short term fixed deposits. As of March 2019, the quarterly average AuM of corporates in liquid funds stood at ~Rs 3.5 lakh crore, indicating a boost of ~Rs 1,750-3,500 crore to corporate profitability at 0.5-1% return. At a price earnings ratio of ~28 for BSE in June 2019, this roughly translates to a valuation boost of INR 50,000 crore to INR 100,000 crore.

PROVIDING SUSTAINABILITY TO CAPITAL MARKETS

In addition to benefiting Indian individual and corporate investors through direct financial gains, another benefit of the industry has been the diversification of the investor base in the capital market. The Indian markets, for a long time, had been largely dependent on foreign inflows which made them extremely vulnerable to global macros, regardless of domestic indicators. The rapid growth of the mutual fund industry in the recent past has given it the critical mass needed to act as a counter-balance to

the vagaries of these foreign flows. Mutual fund inflows have been able to counter potentially extreme volatility by acting as a major source of inflow even when foreign flows have declined. For example, in equity markets, Mutual funds' share has increased from ~8.5% as of FY'14 to 18.4% as of FY'18, while that of FPIs has fallen from 61.8% to 56.4% of the market capitalisation during the same period. Given their expected future growth, mutual funds are expected to continue to play this important role.

IMPROVING CORPORATE GOVERNANCE

As mentioned earlier in this section, mutual fund companies hold more than 5% of the free float in more than 50% of the large, mid and small companies in the country. This allows them to play a pivotal role in the corporate governance framework of the country. SEBI's regulation in 2014 on disclosure of voting patterns was a pivotal step in this direction. This regulation mandated mutual fund companies to disclose their voting patterns every quarter, on resolutions of the companies in which their schemes had invested.

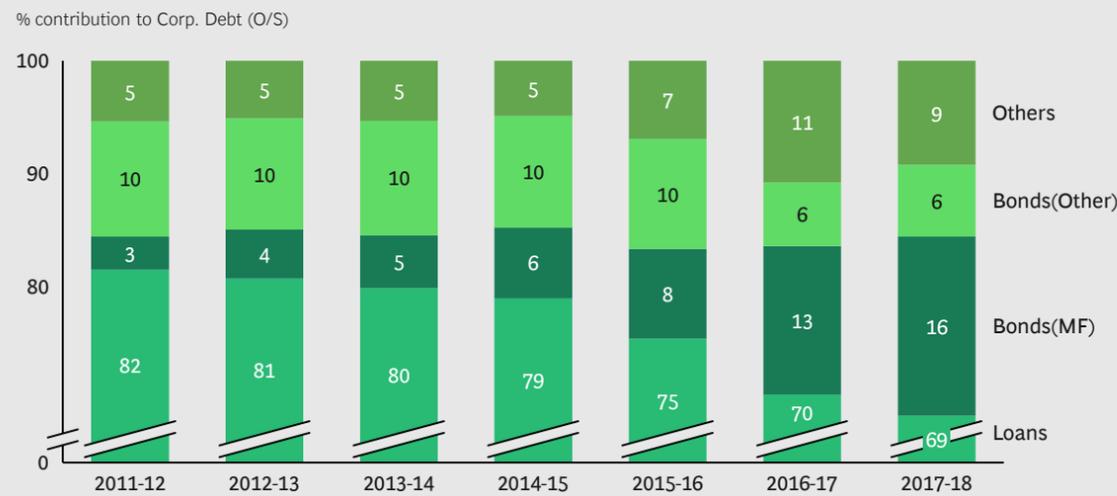
This resulted in an increase in the percentage of resolutions in which mutual fund companies voted, from 49% in 2013 to 87% in 2018.

The enhancement of corporate governance through this practice is obvious in the case of proxy proposals where the management's recommendation for a vote conflicts with that of institutional shareholders. In 2018, mutual fund companies voted on a total of 716 resolutions: agreeing with their managements in 84%, opposing in 3% and abstaining in 12%. At the industry level most voting is pro-management; however, many AMCs preferred to abstain instead of vote against proposals. For example, in FY 2018-19, one of the largest AMCs voted for 80% of the proposals, and abstained from 19%.

Overall, the MF industry is playing a pivotal role in shaping the society and providing an impetus to corporate growth in the country.

EXHIBIT 1.6 | Supporting Corporate India

DEBT FUNDS—FROM 3% TO 16% CONTRIBUTION OF MF



Source: CMIE – Economic Outlook, SEBI.
 Notes: The corporate debt outstanding has been aggregated from company wise data for non-finance companies in India covering about ~80% of the volumes; Bonds (MF) category includes deployment of MF debt funds on long-term corporate debts for non-finance companies. Others includes Fixed deposits and Deferred credit.

KAL AAJ AUR KAL— TRANSFORMING ASSET MANAGEMENT LANDSCAPE

THE INDIAN MUTUAL FUND industry has seen strong growth in the last five years, driven by growing household savings; expansion into new markets; and healthy market returns. This growth has been coupled with transformation across multiple dimensions of the industry.

Industry Structure—In Line With Other Large Markets Globally

In India, the top 10 AMCs account for ~83% of the industry AuM which is in line with other major markets. We looked at the top 10 markets in the global asset management space. The top 10 players account for nearly

90% of the industry in markets such as Brazil and Switzerland, followed by Italy, Japan and Sweden where the top 10 players account for 80-85% of the market. The US, South Korea, France and Germany, too reflect a similar structure with a slightly lower percentage, with the top 10 AMCs constituting 60-65% of the market while the UK and China have <50% concentration of the top 10 MFs in the country. Refer Exhibit 2.1.

Investor Class Mix—Individual Share Growing Faster Than Institutional

The growth in AuM of retail and HNI cus-

tomers has outpaced that of corporates and other institutional investors. Individual investors' AuM posted ~28% CAGR between FY'14 and FY'19. During the same period, corporates' AuM registered a 19% CAGR. Refer Exhibit 2.2.

Individual investors now account for a majority of industry assets with ~58% of the total AuM (Rs 13.8 trillion out of Rs 24 trillion) in FY'19, as against 48% of the total AuM in FY'14. Despite this higher growth, at 58%, the share of individual AuM continues to be much lower than that observed in U.S. (>80%), where initiatives such as the 401(k) savings program have driven this share to such high rates. Within the individual segment, HNI investors maintained the majority share, accounting for nearly 55% of the individual AuM. Both retail and HNI investor segments demonstrated robust growth in AuM. However, retail AuM grew marginally faster with a 29% CAGR over FY'14 and FY'19.

Institutional investors accounted for 42 per cent of the industry assets in March 2019. Out of the total institutional AuM, ~96% was held by corporates and the balance was held by foreign institutional investors and banks. The growth in the institutional segment has been

driven by corporate investors with a 19% CAGR over FY'14 to FY'19, while the FII AuM grew at ~13% over the same period. Refer Exhibit 2.2.

Asset Class: Mix Shifting Across Both Individual and Institutional Investors

Asset classes have seen a significant shift in the mutual fund industry. The last five years saw a significant surge in equity oriented funds, with the share of equity growing from 27% of the overall AuM in FY'13 to 45% in FY'19. This was driven by a combination of increased investor awareness, out-performance by mutual funds vis-à-vis the equity indices and falling returns from other asset classes like fixed deposits, gold and real estate.

The share of equity oriented funds in India lies somewhere in the middle range when compared with other economies in the world. Equity accounts for 54% of the total AuM in the US and 45% in the UK. In France and Germany, equity accounts for 25% and 21% respectively of the total AuM. The equity AuM in China and Brazil is much lower at less than 10%. Refer Exhibit 2.3.

EXHIBIT 2.1 | Industry Structure—Concentrated Market as in the Rest of the World

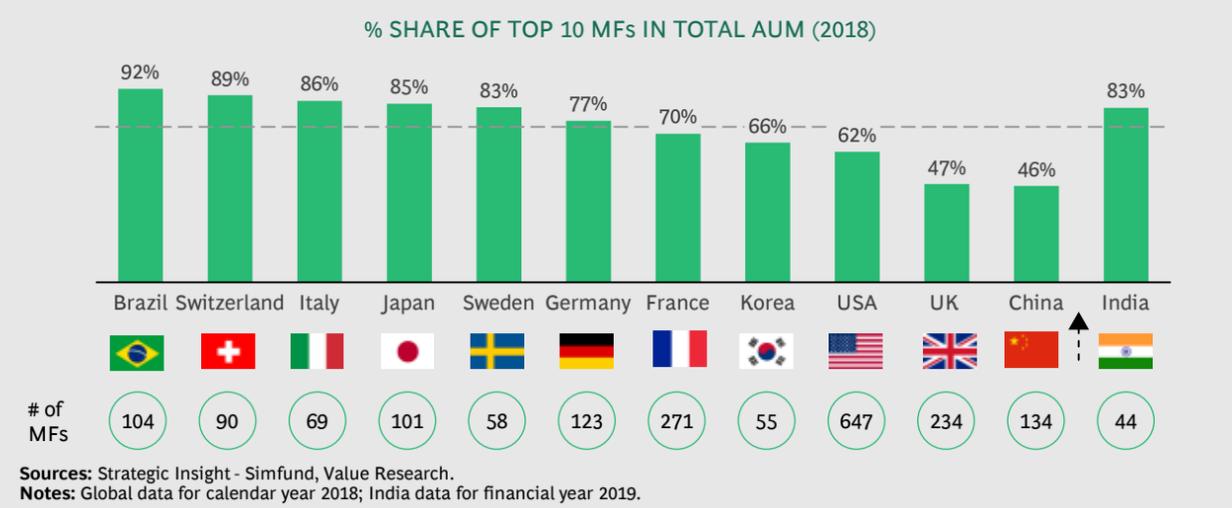
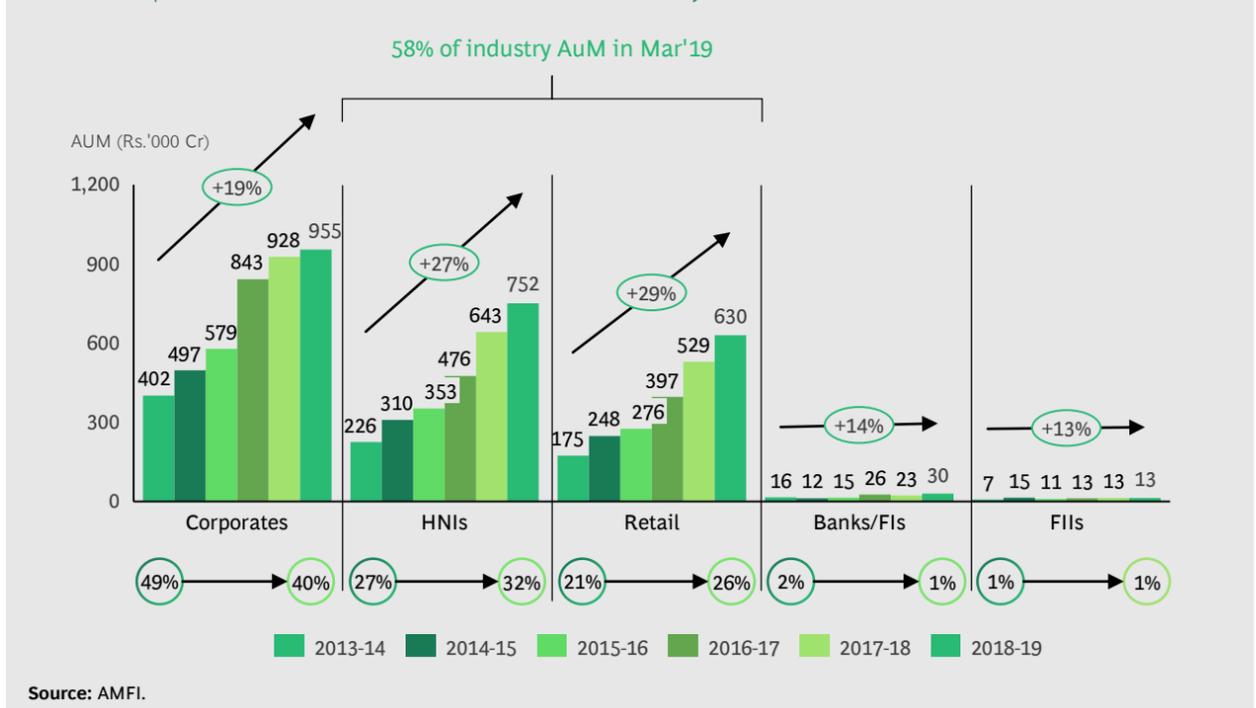


EXHIBIT 2.2 | Individual Investors Account for 58% of Industry AuM



The shift in asset class was observed across both individual and institutional investor segments. The surge in equity oriented mutual funds was primarily driven by the individual investor segment, accounting for two thirds of the AuM of the segment. In FY'14, this share stood at 46% (refer Exhibit 2.4). The share of equity funds for institutional investors also rose from 8% in FY'14 to 25% in FY'19. However, the growing liquid fund segment took up majority of the share in the institutional segment, accounting for 36% of institutional AuM in FY'19 vs. 28% in FY'14. Refer Exhibit 2.4.

Distribution Mix: Individual Segment Continues to be Dominated by Channel Partners

The distribution channels in the mutual fund industry can broadly be classified into five categories:

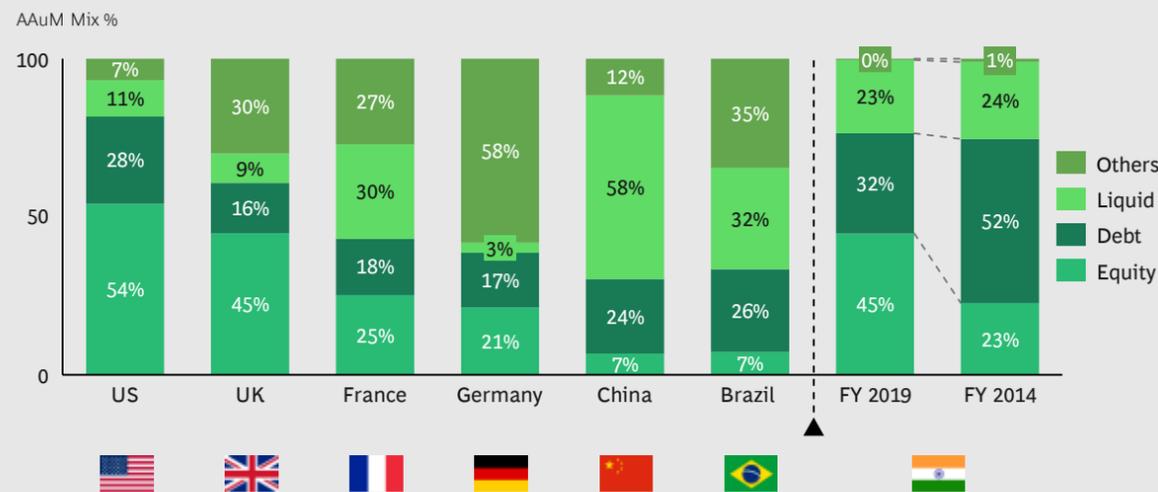
- Banks: Distribution by employees of public sector, private and foreign banks
- National distributors: Intermediaries with large reach across the country, involved in the sale of mutual funds
- Independent Financial Advisers (IFAs) and Registered Investment Advisers (RIAs)

- Direct: Both physical sales via AMC branches and direct digital sourcing
- Others: Exchange brokers, fund of fund investments, web aggregators, etc.

Direct channel saw the sharpest growth over the last five years. The share of direct channel grew from 23% in FY'13 to 42% in FY'19 replacing national distributors as the largest channel. The de-averaged view across individual and institutional investors reflects two distinct trajectories within the direct channel. The majority of directly sourced AuM is constituted by institutional investors. Retail and HNI investors continue to be dependent on a high-touch model. These investors have 13% and 22% share respectively from the direct channel. On the other hand, ~72% of institutional AuM was sourced via the direct channel. The share of national distributors in the industry AuM fell from 38% to 18% over the same period, as institutional investors were targeted directly by the AMCs. Banks and IFAs have largely maintained their share during this period. Refer Exhibit 2.5.

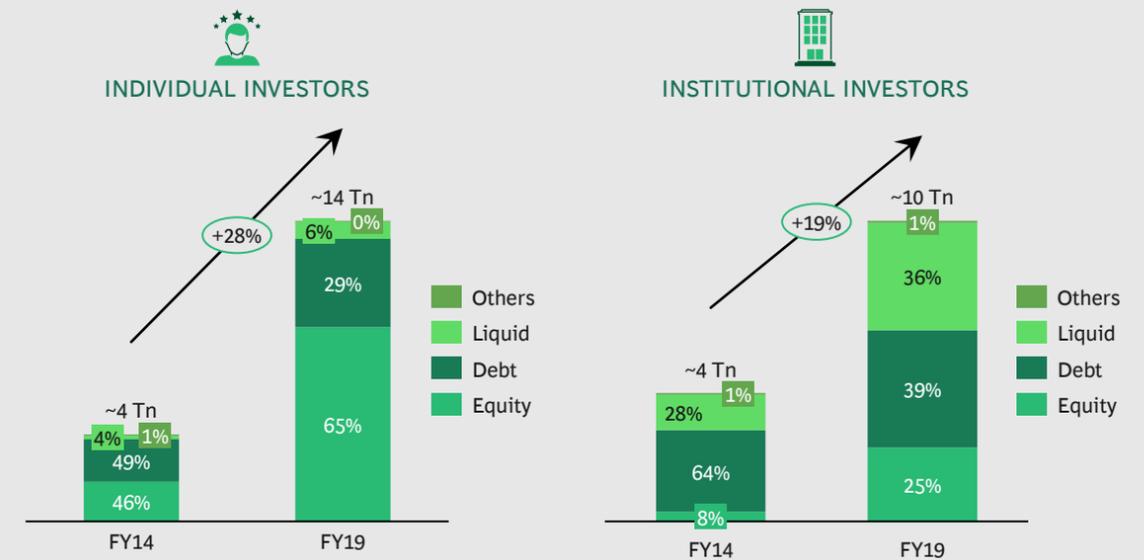
Online channels have seen a significant surge in the discovery phase of the customers' investment journey. Further, growth in online activity has been significantly higher in B15

EXHIBIT 2.3 | Asset Classes Composition of AuM For India and Global Benchmarks



Sources: Strategic Insight - Simfund, AMFI, BCG analysis.
 Note: Global data for Calendar year 2018; India data for financial year 2019; Others includes Gilt and Fund of fund overseas; Balanced funds are split into debt and equity in 40:60.

EXHIBIT 2.4 | Asset Class Mix Across Investor Type

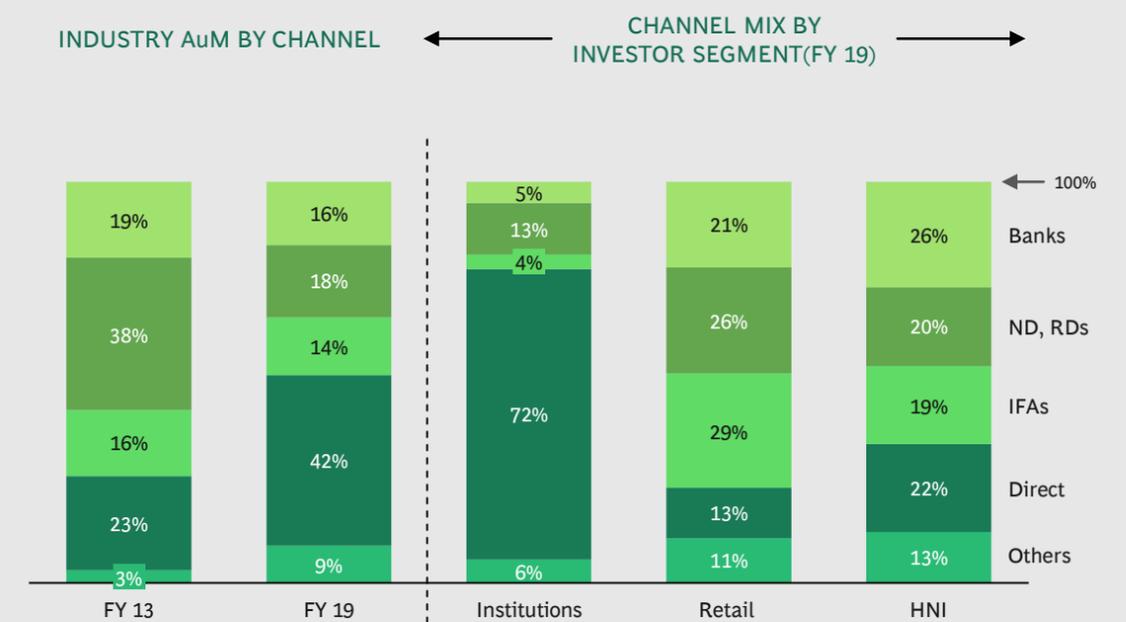


Source: AMFI.
 Notes: Others includes Gilt and Fund of fund overseas; Balanced funds are split into debt and equity in 40:60.

cities. Google data shows that search volumes for 'SIP' registered a 6x increase in B15 cities across all devices from 2015 to 2018. Mobile devices saw a 16x increase in search volumes for the same keyword during this time; refer

Exhibit 2.6. This surge in the online presence of investors coupled with an increasing regulatory push towards awareness of direct plans is likely to aid the growth of direct digital channels with individual investors.

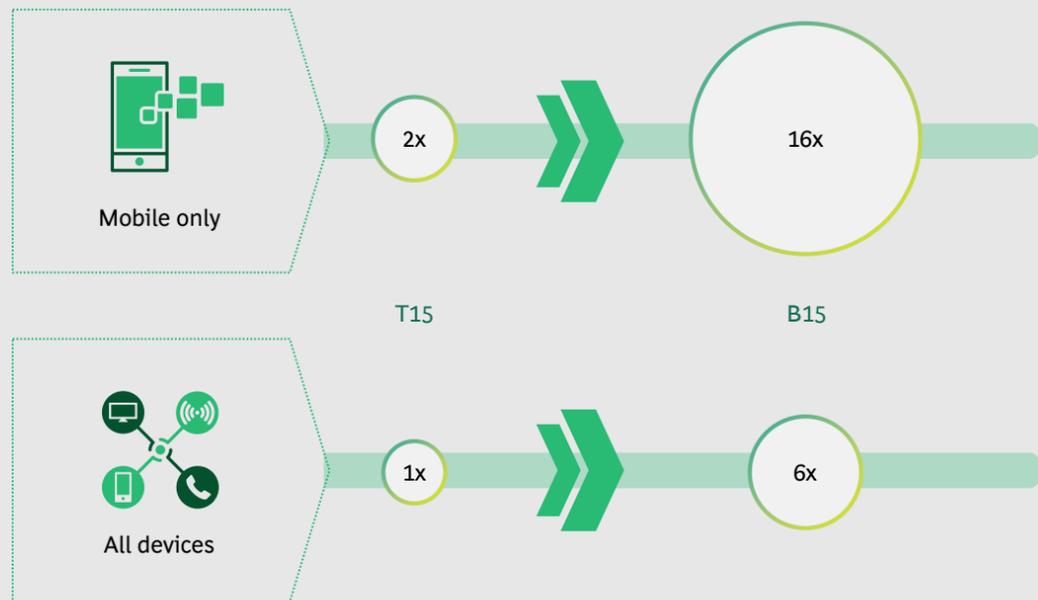
EXHIBIT 2.5 | Shifting Channel Mix



Sources: AMFI, CAMS, KARVY.
 Notes: CAMS and KARVY covers ~93% of the total industry AuM. ND = National Distributor, RD = Regional Distributor, IFA = Independent Financial Advisor, Others = Portfolio managers, Stock exchange brokers, FOF investments, Invalid ARNs, etc.; Retail investors are those who have cumulative investments in schemes between 0 and 5 lakhs, HNI investors are those who have cumulative investments in schemes greater than 5 lakhs.

EXHIBIT 2.6 | Surge in Online Activity for Mutual Funds Significantly Higher from B15

INCREASE IN SEARCH VOLUMES FOR "SIP" BETWEEN 2015 AND 2018 ACROSS DEVICES



Source: Google.
 Note: "SIP" / "Mutual Fund" indicate the search strings for which the results were evaluated. The size of the bubbles is reflective of the growth in online searches and does not reflect the absolute values.

Geography: Rise of B30 and Eventually B100

The B15 regions saw their contribution to AuM rise from ~13% in FY'13 to ~25% in FY'19. SEBI's recent relabeling of regions from T15 and B15 to T30 and B30 is reflective of this growth. B30 registered an even faster growth than B15, with its contribution to AuM rising from <8% in FY'13 to 21% in FY'19. However, despite recent growth, mutual fund penetration in B15 continues to be low when compared to other savings products. Only 25% of mutual fund AuM comes from B15, as opposed to ~70% for savings deposits, ~58% for retail loans and ~40% for current deposits. Refer Exhibit 2.7.

Alpha Returns—Continue to Hold?

An annual study by S&P Dow Jones Indices shows that nearly 42% of the large cap active funds outperformed the benchmark in India over a five-year horizon in 2018 while in the US and Canada, the corresponding figures are 18% and 10% respectively.

If India were to follow global trends, then it is imperative for the industry to prepare for a

scenario where the alphas come under pressure. If such a scenario plays out, passive funds are likely to become increasingly relevant, putting pressure on profitability. AMC's will have to rethink their strategy towards more sophisticated offerings such as PMS or alternative investment funds.

Customer Segments—Increasing Relevance of Middle of Pyramid

Until now, asset management players have largely focused on households at the top end of the income pyramid (>INR 10 lakh household income), and located in metros and tier 1 cities. Our estimates indicate that most of the current ~2 crore investors are in the affluent (INR 10-50 lakh household income) or HNI (> INR 50 lakh household income) category, and located in metro and tier 1 cities. Currently there are about 10 million households in this income and geographic category out of the total 275 million households in India. If we assume that 75% of these 10 million households have some exposure to mutual funds and ~5% of the remaining 265 million households have some exposure to mutual

EXHIBIT 2.7 | Mutual Funds Underpenetrated in B15 Compared to Other Financial Products



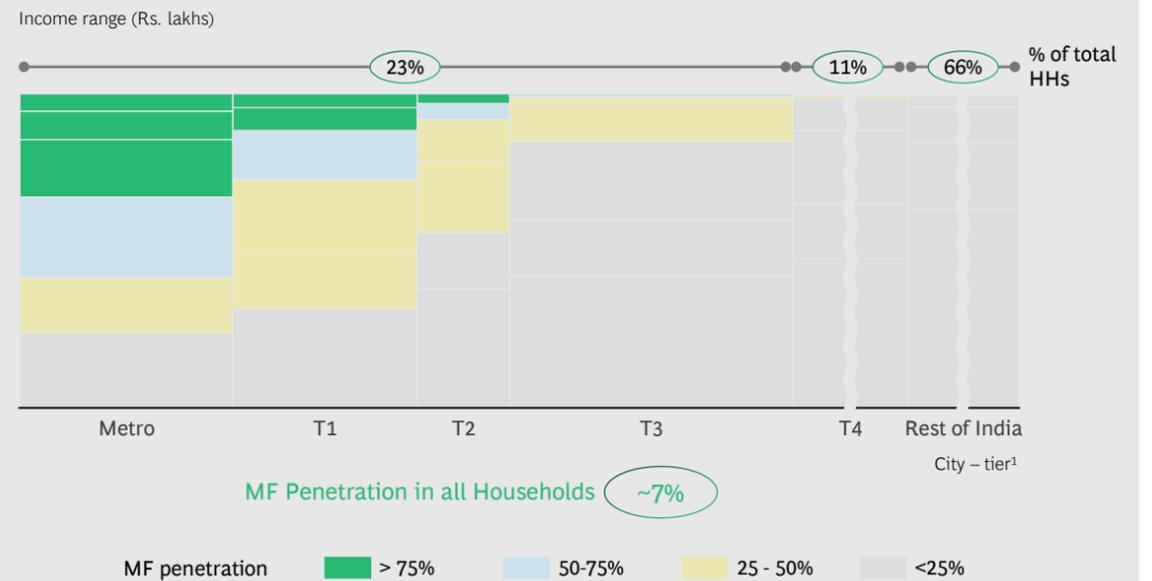
Source: RBI; AMFI.
 Note: For Savings and Current deposits and Retail Loans, district wise data has been mapped to AMFI specified T15 and B15 cities; Data for retail loans is as on Mar '18; All other data is for FY 2019.

funds, it would translate to ~20 million households with mutual fund exposure out of the total 275 million households in the country.

This would mean a mutual fund penetration of ~7% of the 275 million households as of 2018. Refer Exhibit 2.8.

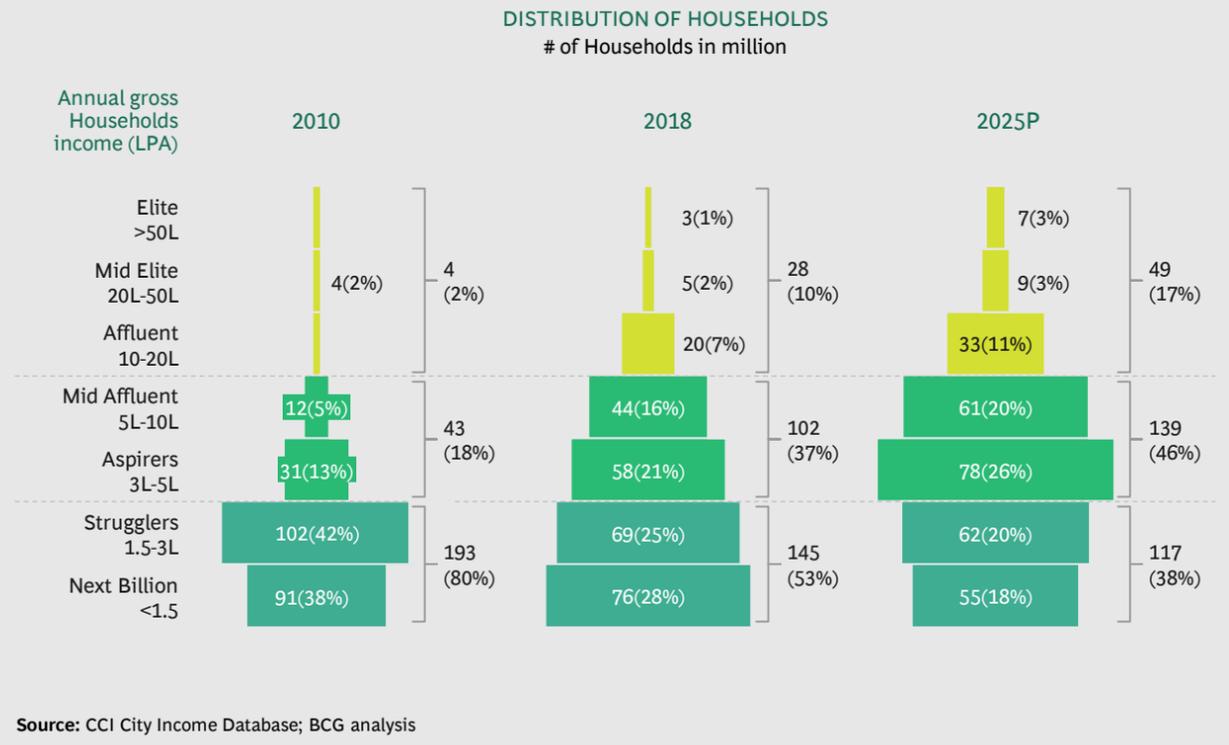
EXHIBIT 2.8 | Current MF Penetration @ 7% Across Households in India

CURRENT MF PENETRATION ACROSS HOUSEHOLDS BY INCOME AND CITY TIER¹



Source: BCG CCI database, AMFI, Industry discussions, BCG Analysis.
 Note: Factor of 1.3 investors per household assumed to translate current investor base of 2 Cr to # of investing Households
¹City Tier Definition by Population Metros > 4 mn; Tier 1 < 4 mn and > 1mn; Tier 2 > 0.5 mn and < 1 mn; Tier 3 > 0.1 mn and < 0.5 mn; Tier 4 < 0.1mn and > 0.01mn.

EXHIBIT 2.9 | Middle of the Pyramid Growing Fast, Will Continue to Present Significant Opportunities for Growth in B100



While there has been a positive shift in overall household penetration, it is important to improve the penetration levels in the middle of the income pyramid. The >INR 10 lakh income segment accounted for ~10% of all households while the INR 3-10 lakh income segment accounted for ~37% of all households in 2018. These figures are expected to increase to 17% and 46% respectively by 2025. Refer Exhibit 2.9.

Overall, the mutual fund industry has seen a large shift across multiple dimensions:

- Individual investors growing faster than institutions with over 58% share in industry AuM

- Equity overtaking other asset classes to become the prominent asset class
- Digital gaining traction, however, retail and HNI investors continue to rely on intermediaries
- B30 and B100 cities experiencing break-out growth and well placed for future growth with regulatory enablers
- Middle segment of the income pyramid to be increasingly relevant in future

The attributes outlined above will be important to create an appropriate platform for the future growth of the industry.

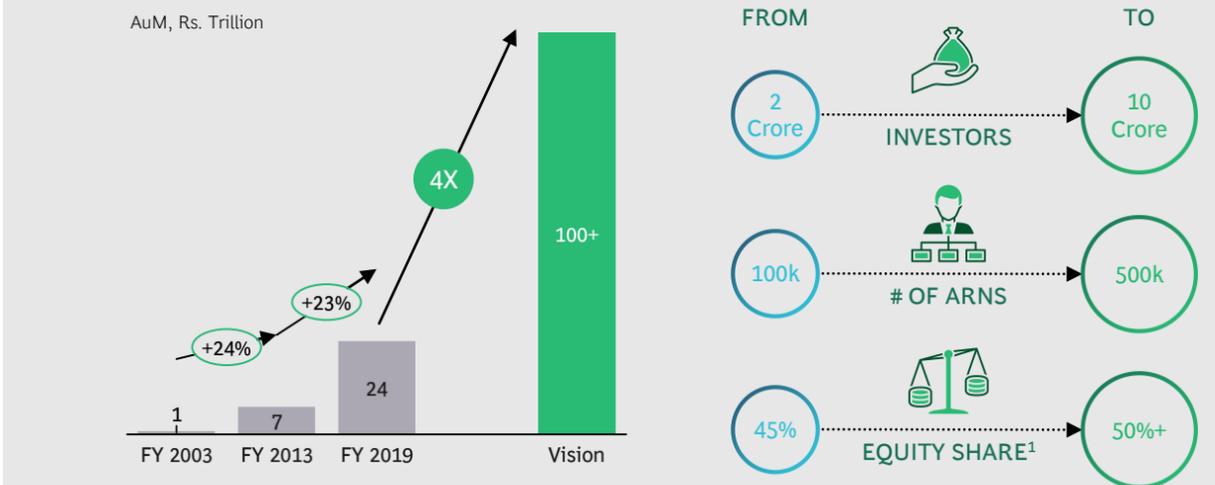
WINNING THE TWENTIES—₹ 100 TRILLION OPPORTUNITY

THE INDIAN MUTUAL FUND industry has seen tremendous growth in the last few years. However, the industry continues to be under-penetrated as compared to other large nations. AuM of mutual funds as percentage of GDP is at half or one third of other developed countries like US, Canada & UK and emerging markets like Brazil. Further, our estimates indicate that the mutual fund penetration across all Indian households is at <10% today. The low geographic penetration in B30 cities where nearly 90% of Indian

households are located as well as low levels of investor awareness are factors indicative of the significant growth potential for the asset management industry. It is also under-penetrated in comparison with other financial services in India such as banking and insurance. India's asset management industry has the potential to reach INR 100 trillion of AuM in the twenties.

The above milestone, if achieved by the mid twenties, could catapult India's global rank

EXHIBIT 3.1 | Industry Can Aspire to Reach 100 Trillion AuM and 100 Million Customers



Source: AMFI, CAMS, BCG Analysis.
E = Estimated. Note - Total no of ARN includes Individual, Senior citizen, New cadre and corporate.
¹ Share of equity funds in total AuM.

ing to 11-13 from a ranking of 17 at the end of 2018, based on AuM.

Achieving the INR 100 trillion milestone will require a significant shift in the shape of the industry. Such a significant shift will include:

- A 5x increase in investor base from 2 crore investors today to 10 crore investors
- Adding ~4 lakh new channel partners and investing in building a sustainable distribution network
- Equity to constitute >50% of AuM (vs. 45% share today)

Reaching the 100 trillion vision will require various kinds of market expansion as shown in Exhibit 3.2:

- 1. Distribution outreach**—increasing reach beyond metros and tier 1 cities
- 2. Inclusion through simplification**—expanding coverage to middle income households

3. Deeper penetration into the savings wallet of existing and new investors

Distribution Outreach—Increasing Reach Beyond Metros and Tier 1 Cities

Reaching the 100 trillion AuM milestone will mean adding about 8 crore new investors. The current investor base as well as distribution footprint are largely concentrated in metro and tier 1 cities. This is reflected in the ~75% share of the T15 cities in the overall industry AuM. Currently, the difference in the ARN density across T15 and B15 cities is almost 18x. T15 cities have ~4,300 ARNs for every million households as against ~230 ARNs for every million households in B15 cities. As the industry looks at on-boarding investors beyond tier 1 cities, this gap in distribution density will need to be brought down significantly by setting up more channel partners in other cities.

A significant part of the 8 crore new investors will be on-boarded from smaller towns—not only from B30, but also from B100 cities. Limited awareness about mutual funds amongst

EXHIBIT 3.2 | 100 Trillion Will Require 3 Kinds of Market Expansion

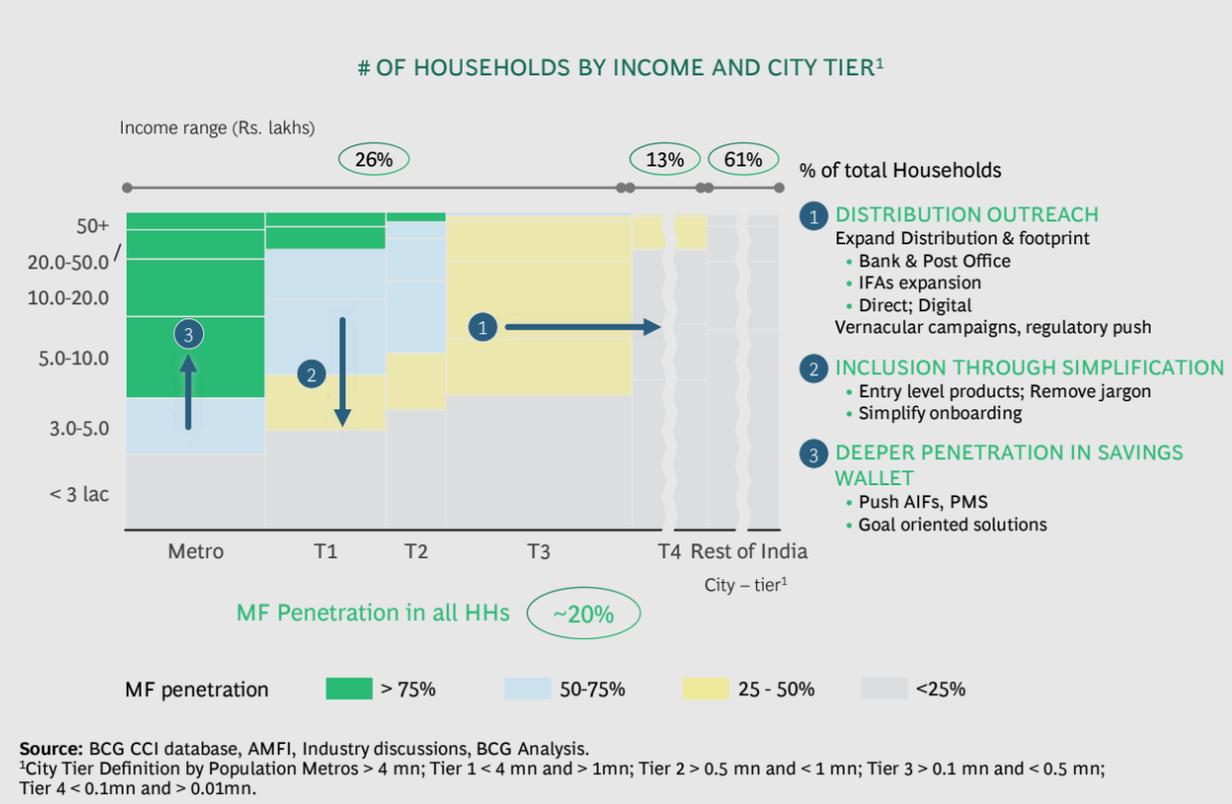
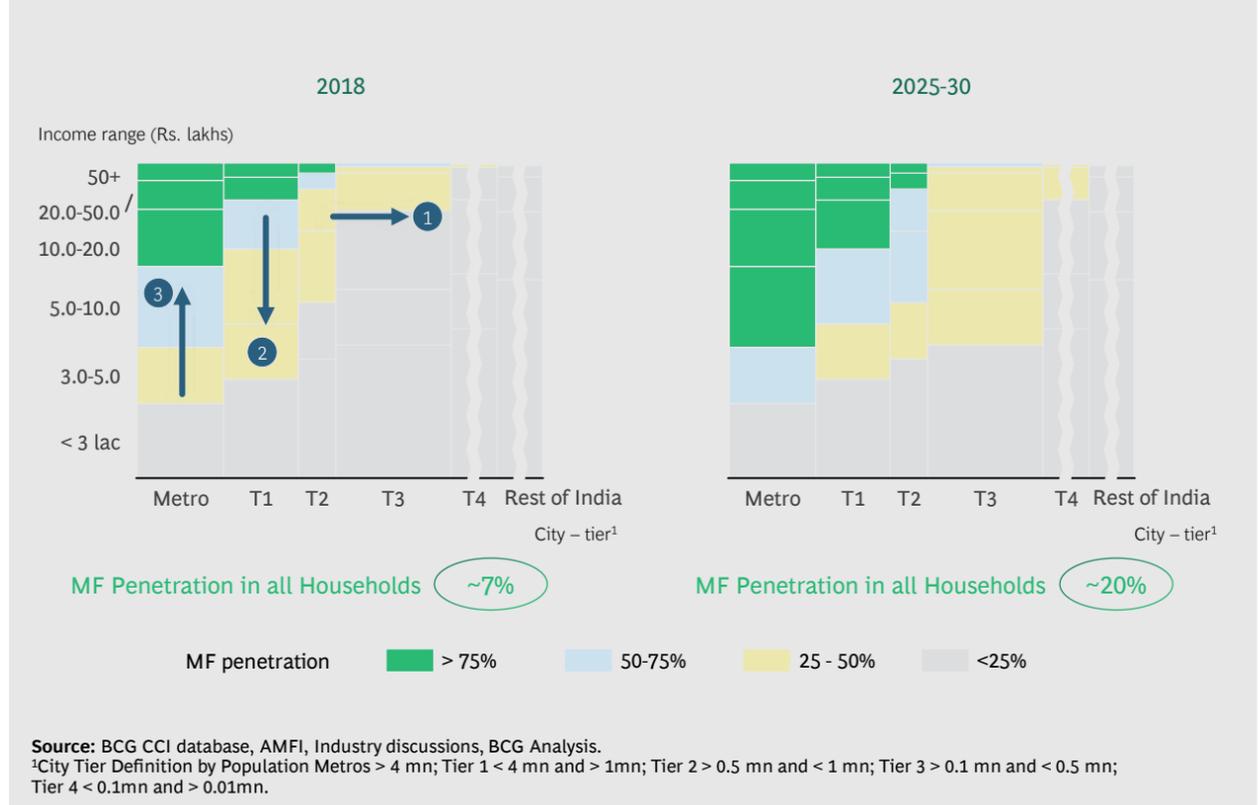


EXHIBIT 3.3 | Industry Can Cover 20% of Indian Households by 2025



these new investors implies that a high touch engagement model will be required to guide, educate and assist these customers. This will necessitate the need for physical presence in such locations in the form of AMC branches or channel partner presence.

Expanding the distribution network beyond metros and tier 1 cities will require a combination of investing in a captive branch network, leveraging partnerships and identifying new channel partners with a local presence. There is scope to explore partnerships with a large variety of players including India Post, regional rural banks as well as business correspondents for last mile fulfillment. Leveraging digital and increasing the direct presence of AMCs will also be necessary to reach tier 3 and tier 4 locations.

In addition to creating the distribution network, investing in customer awareness in such locations will be crucial in ensuring meaningful utilization of this network. Given the geographic diversity across the country, communication with the masses in local languages will be a core necessity of these cam-

paigns to enhance awareness. The success of 'MF Sahi Hai' campaign demonstrates the success of using local languages in communication as well as in marketing.

Inclusion Through Simplification—Expanding Coverage to Middle Income Households

Currently, the mutual fund industry is largely focused on the HNI and affluent segments (> INR 10 lakh income), that account for just 10% of households. The middle income pyramid (households with INR 3-10 lakh income per annum) constituted about 37% of households in India in 2018 and is expected to account for nearly 46% of households by 2025. As the industry looks at expanding its investor base from the current 2 crore to 10 crore, bringing the middle and lower income households into the mutual fund fold will be a key imperative.

Improving the penetration of mutual funds into middle and lower income households will require significant simplification of the current products as well as the on-boarding

processes. The mutual fund industry today offers over 1000 schemes, ranging across asset classes, strategy, risk return profile, etc. Moreover, the industry is laden with complex jargon around product strategies, expense ratios, returns, etc. This difficult jargon along with the wide range of product offerings and extensive KYC paperwork often discourages first time investors from switching from the simple traditional investment products such as bank deposits.

A dedicated effort needs to be made to create innovative and simple products that fulfill the needs of this segment. Industry can look at global examples of ‘solution or goal oriented’ offerings to tap into this segment. Some AMC’s are already offering benefit-linked MF offerings such as linkages with insurance and medical payment. Fintechs like Goalwise have based their entire sales and distribution model around goals that range from tax savings to child education, vacation, weddings, etc. The middle income segment will need significant simplification of product terminology and the on-boarding process. Standardization of KYC norms (across CKYC, KRA, eKYC) along with digitization of RTAs can enable a more seamless on-boarding experience and better customer engagement.

Deeper Penetration into Savings Wallet of Existing and New Investors

Despite the breakout growth in the industry over the last 15 years, mutual funds in India account for only 6% of the gross financial savings of households. Savings deposits and fixed deposits still account for nearly 40% of the financial savings (refer to the right hand side chart on Exhibit 1.3). Mutual fund AuM of individual investors accounted for just 15% of the total savings and fixed deposits in the banking industry, reflective of the large headroom available for growth.

One of the key imperatives for the industry to achieve this vision will be to increase the share of mutual funds in the financial savings basket of the 2 crore customers who already hold such funds. The relatively low share of debt mutual funds (<25%) in individual investors’ AuM and low penetration of MF as per-

centage of banking deposits offer an opportunity to enhance the MF share in the savings basket. A focused awareness campaign may be needed to highlight the benefits of debt oriented funds vis-à-vis other debt investment products like fixed deposits.

Other key drivers to improve penetration include ensuring that the existing investors stay invested even during turbulent times; a continued push towards stickier products such as SIPs for the retail segment; and increasing awareness about sophisticated offerings such as PMS and AIFs among the affluent and HNI segments. These initiatives will be important to deepen the share of asset management products in the savings wallet. India still lags behind its global peers in terms of penetration of alternatives (including PMS). The HNI segment will require dedicated wealth offerings customized to their needs. The top of the pyramid is served by a variety of advisors; however, the mid, affluent and lower end of the HNI segment is significantly under-served with sub-par advice and service.

The above three strategies, in our opinion, can enable the industry to achieve the 100 trillion potential over the next decade. We estimate that when this happens, the industry will cover nearly 20% of Indian households.

UNLOCKING THE POTENTIAL—IMPERATIVES FOR THE INDUSTRY

FOR INDIA’S ASSET MANAGEMENT industry to realize the opportunity laid out in the previous chapter, all stakeholders will need to play their part. While the opportunity is real and sizeable, multiple complex interventions will be required to achieve the proposed opportunity. All participants in the industry, such as asset managers, channel partners and the regulator will need to play a role in helping the industry reach the next level of growth.

We have identified a seven-point agenda for the industry to realize its 100 trillion potential:

1. Nurture and invest in ‘newer customers’
2. Shift gears to accelerate distribution outreach
3. Reimagine core customer experience
4. Exploit technology across the value chain
5. Leverage partnerships to expand capabilities
6. Awaken industry to self-governance
7. Continued regulatory oversight and support

Nurture and Invest in ‘Newer Customers’

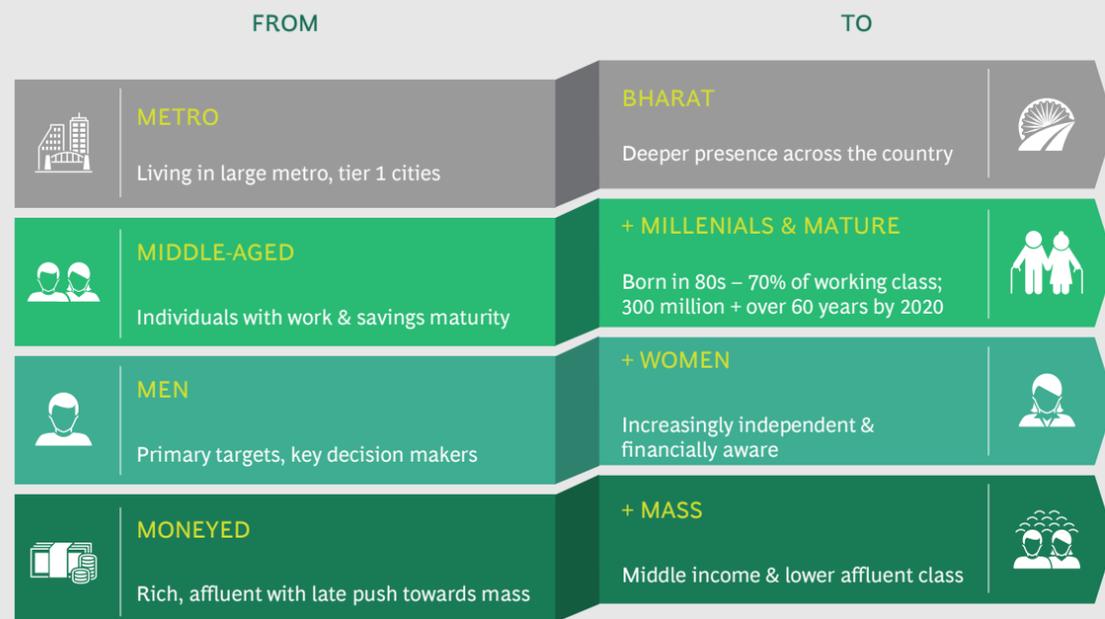
Historically, individual investors targeted by AMC’s can be characterized as the ‘four M investor class’. These investors have four key characteristics:

- Metro-based
- Middle-aged
- Men
- Moneyed

We expect the target investor segment to undergo a dramatic shift over the next few years (refer Exhibit 4.1). Future investor segments are likely to have the following characteristics:

- Bharat-based: Investors will need to be targeted across the country rather than just in metro and tier 1 cities.
- Millennials: This segment includes individuals born in the 1980s and who have grown up in the liberalized economy. Millennials are expected to constitute nearly 75% of the overall population and 70% of the working class by 2020. They are characterized by their strong preference for transacting online. According to data from CAMS, of the 3.6 million new

EXHIBIT 4.1 | Mutual Fund Investor Base to Undergo a Dramatic Shift



Source: BCG analysis.

MF investors it onboarded in FY18-19, 47% were millennials (between 20 and 35 years). A recent YouGov study indicated that more than 78% of millennials with a monthly income >INR 50,000 are already shopping online. This desire to shop online exists across a variety of purchases from electronics to apparel to groceries. Mutual fund companies will need to consider this specific preference amongst the millennials vis-à-vis their current offerings to ensure a targeted approach.

- Mature and elderly individuals: While on the one extreme, millennials will constitute a large share of the population, on the other, a dramatic shift is expected in the age profile of India's population over the next 5-10 years. India will have ~350 million individuals over the age of 50 years by 2030. Given the lack of social security and retirement schemes, planning for old age and retirement will become an increasingly relevant topic amongst such investors.
- Women: A significant shift can be seen in the role of women in Indian households.

Women's enrolment in education has seen a significant surge in the last few years. The focus on education and increase in the number of qualified women is likely to result in a strong female workforce in the future. This will empower women to have greater influence on the spending and saving decisions of the household. The recent data from CAMS is indicative of this shift - 24% of the 1.7 lakh millennial investors in MF in FY18-19 were women, pointing towards increased financial independence and participation of women in money-related decisions.

- Masses: The middle income (INR 3 lakh to 10 lakh) category is expected to constitute 46% of households by 2025 vis-à-vis 37% today. In addition, the lower income (<INR 3 lakh) households are expected to constitute 38% of households by 2025. Not targeting these segments in a meaningful way will leave a large space untouched by mutual fund companies. We expect that a large number of first time investors getting on-boarded will be from these two segments.

A large shift is expected in the characteristics and preferences of the target investor base over the next decade. Further, the target investor base is likely to have diverse preferences. Millennials will have high propensity for digital; while the older age segment will prefer a physical, hands-on engagement model. Targeting such a unique and diverse set of investor segments will require customized product propositions and 'go to market' methodologies. A goal-oriented offering is one such strategy that can help target these large yet distinct customer segments and help engage customers at an emotional level.

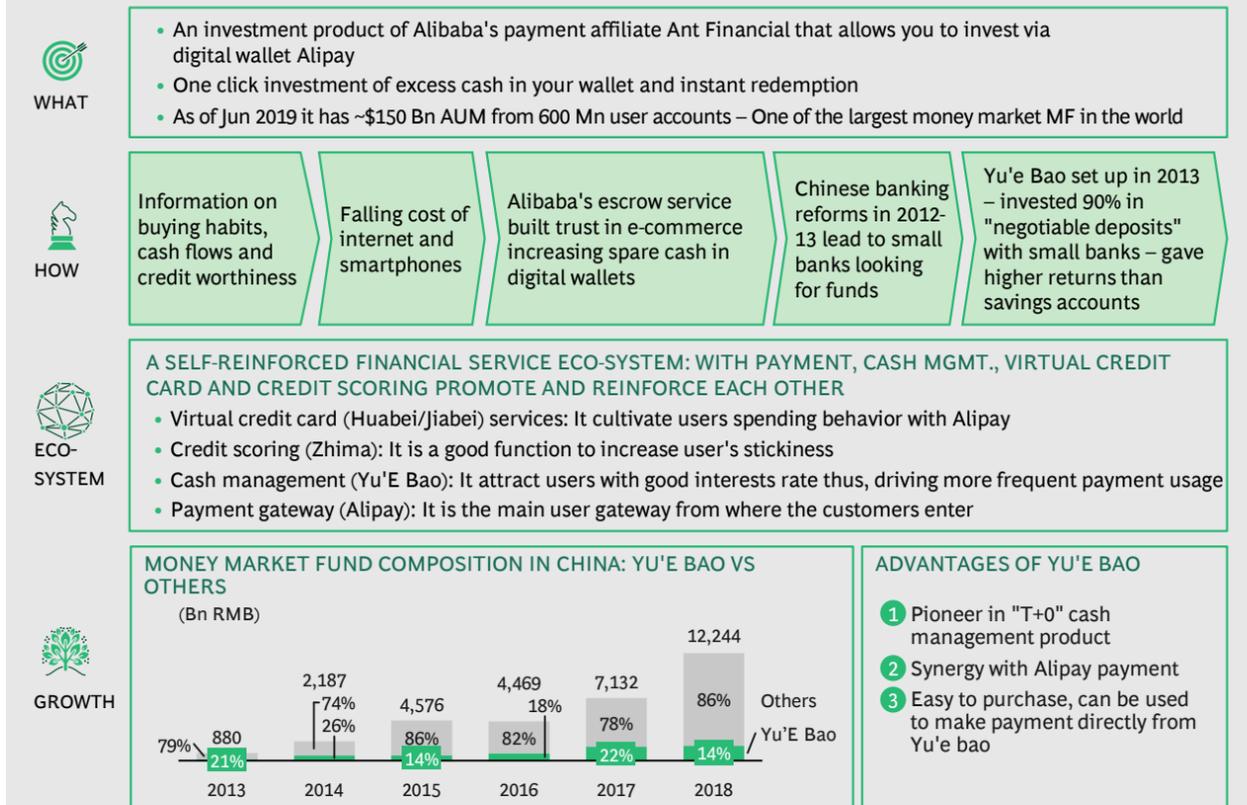
Communicating through the right channels will also be key in targeting these segments. Zerodha, a fintech, is now the largest stock broker in India with 8.47 lakh active clients as of December 2018 executing 2-2.5 million trades daily online. Yu'eBao in China is another interesting example of fintech that offered a simple interface for transactions that can lead to significant growth in AuM. A spin-

off of Ant Financial, Alibaba's financial arm, Yu'eBao manages extra cash that Alipay's (Alibaba's payment gateway) customers have in their digital wallets and provides a return much higher than the typical 3-4% given by savings accounts. Refer Exhibit 4.2.

Shift Gears to Accelerate Distribution Outreach

A large scale-up is required across all channel categories to reach the 100 trillion vision. We believe another 4 lakh ARNs will be required to meet the 100 trillion AuM and 100 million investor base aspirations. Expanding mutual fund penetration into B30 and subsequently B100 cities is a clear imperative for the industry. Investors in these geographies will need a high touch engagement model to educate and guide them. As per a Nielsen survey, only 50% of first time investors are aware of the direct route for investing in mutual funds and 61% of the investors track the performance of their fund through their ad-

EXHIBIT 4.2 | Yu'E Bao – Digitalizing Investment in Mutual Funds



Source: Press Search, BCG global resources.

visor or IFA. The need for a high touch model continues to be relevant, despite the rise of digital, especially in the B15 and B30 cities as a large number of first time investors enter the mutual fund industry.

IFAs

The current channel partner presence for the mutual fund industry is significantly skewed towards metros and tier 1 cities. This fact becomes clear when we contrast the ARN density in T15 cities and B15 cities. The ARNs per million households in T15 cities are ~18 times higher than those in B15 cities (refer Exhibit 4.3). At the overall country level there are ~440 ARNs per million households. While the number in T15 cities is 4,300, it plummets to ~230 in B15 cities. This gap will have to be reduced quickly to meet the 100 trillion AuM aspiration. One important hurdle in expanding this network will be the ability to ensure sustainable returns for the IFAs. Analysis of CAMS data indicates that the top 4000 IFAs account for ~95% of the total IFA AuM, indicating the significant imbalance that exists in ARN economics. Historically, due to low levels of mutual fund penetration and customer awareness,

the smaller ARNs have often struggled to get significant business and break-even.

BANKS

The banking channel is significantly better placed to target B15 and B30 cities, since the skew in bank branch density is significantly lower than that of IFAs. Banks have ~875-900 branches per million households across metros and tier 1 cities. The corresponding number for the tier 2 cities drops to 830 branches; for tier 4 cities and below it drops to ~450 branches. This indicates a 2x contrast as compared to an 18x contrast in IFA density. The banking channel offers a large potential to serve investors in B30 locations. Refer Exhibit 4.3.

The penetration of individual investors' AuM stood at ~11% of savings and term deposit balances with banks as of March 2018. However, even in the top 40 cities by mutual fund AuM, only 10 had a higher share of individual AuM as a percentage of deposits despite a higher than average branch density (refer Exhibit 4.4). Ensuring transparency and awareness amongst bank employees about the benefits of distributing mutual

funds will be crucial to utilize this large opportunity. The perceived imbalance in commissions earned across different third party products by banks influences the push for mutual funds. For example, the first year commission earned on an insurance policy (which can be as high as 30%) is perceived to be much higher by bank personnel as against a 3-4% commission including trail commissions earned in case of mutual funds. However, what is often overlooked is the lifetime value of mutual fund commissions from a customer. The average holding period for mutual funds is 2.5 years; and the same customer can buy many mutual funds. In contrast, more often than not, customers buy only one life insurance.

DIRECT CHANNELS

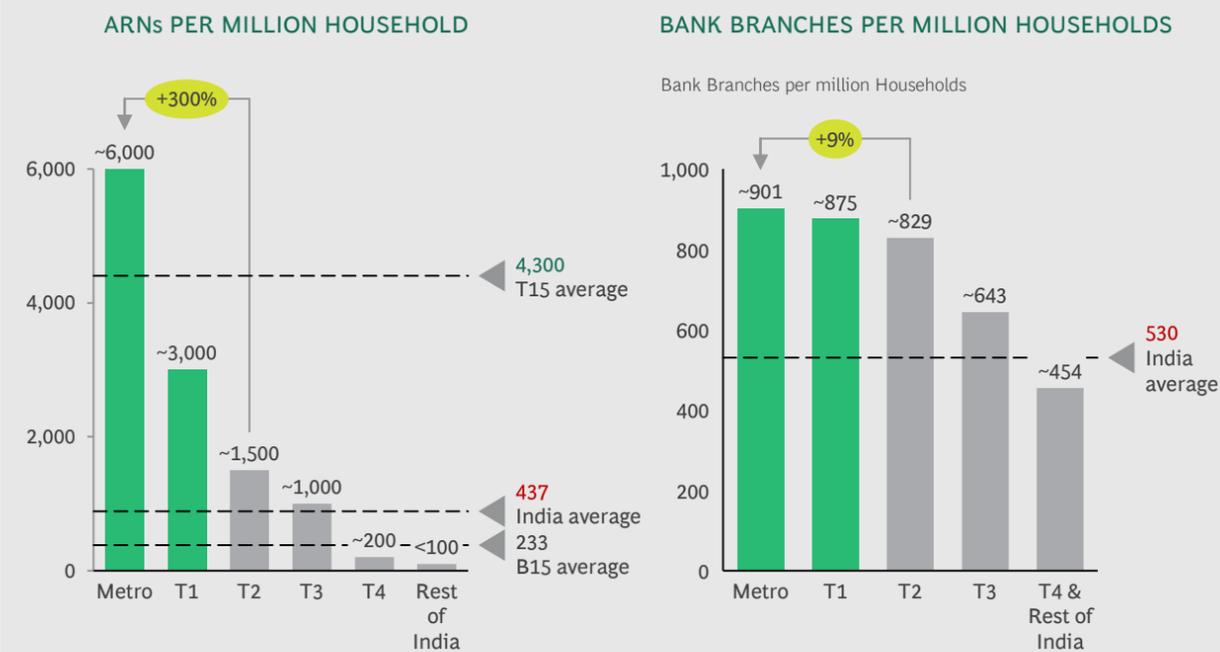
The branch presence for AMCs continues to be very low with only about 1,700 AMC branches as against ~1.4 lakh bank branches and ~11,000 insurance branches (refer Exhibit 4.5). Building this reach in a cost effective manner will be crucial to balance profitability as we drive scale. AMCs can borrow learnings from the banking industry

to explore various models. The hub and spoke model can be tried out to delve into deeper geographies; the business correspondent model leveraged by traditional banks and payment banks can be another strategy, used either in isolation or in conjunction with the hub and spoke model to provide physical presence without significantly investing in brick and mortar.

ONLINE CHANNELS

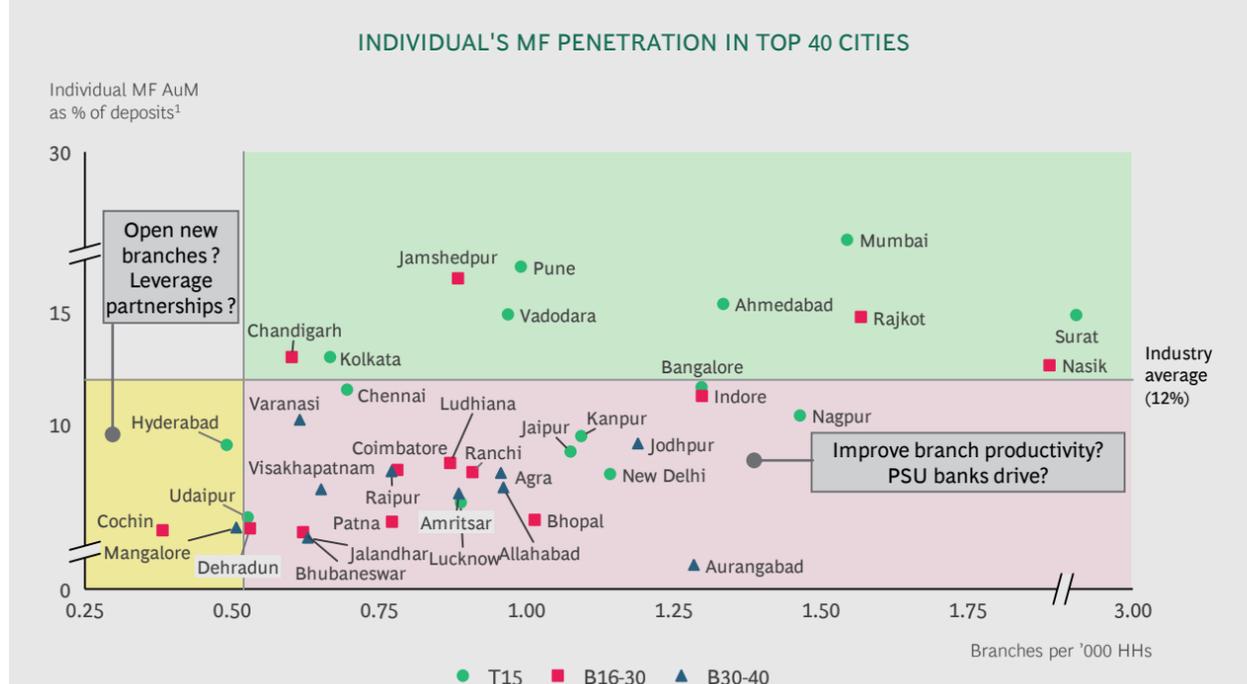
Direct digital still accounts for <3% of the AuM basis data from RTAs. However, one cannot ignore the multi-fold increase in the usage of digital and online channels for discovery and transacting. The number of customers purchasing any product online grew seven-fold in the last three years. Mutual funds have seen a high digital take-off with ~60% urban MF investors having had digital influence in their purchase of MFs and ~30% of them have purchased digitally. (Digital purchase is defined as completion of one of the following three steps online: 1. submitting the application; 2. activating the account; 3. submitting KYC). A Nielsen survey of first time investors indicated that 93% of

EXHIBIT 4.3 | Significant Need to Increase ARNs Especially in B15



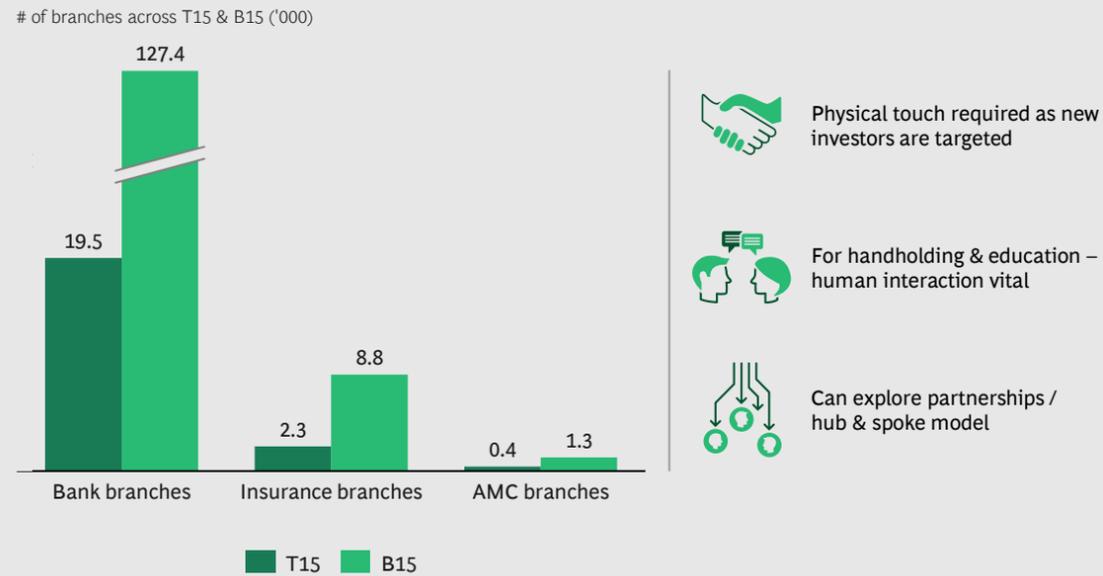
Sources: AMFI, RTA, CCI Study, BCG analysis.
 Note: No.s rounded to nearest hundred / thousand.
 City Tier Definition by Population: Metros > 4 mn; Tier 1 > 1mn and > 4 mn; Tier 2 > 0.5 mn and < 1 mn; Tier 3 > 0.1 mn and < 0.5 mn; Tier 4 < 0.1mn and > 0.01mn. ARN per million household computed for T15 and B15 basis number of ARNs as of march'18.

EXHIBIT 4.4 | Significant Headroom for Improving Penetration in Bank Branches



Sources: RBI, AMFI, BCG CCI database, BCG analysis.
 Note: Above analysis basis AuM from CAMS. CAMS covers ~70% of industry AuM for individuals.
 Deposits include savings balance and term deposits.

EXHIBIT 4.5 | Physical Footprint of AMCs Behind Banks and Insurers



Sources: AMFI, Ministry of Finance database, IRDAI.
 Note: Insurance branches for T15 is based on ~80% of branches of all metro regions defined by IRDA as regions with >1 million population.

those who invested through direct channels visited the AMC website before investing. This number is as high as 97% for investors in the 22-30 years age group.

Analysis of Google data also shows the increasing usage of online channels in B15 cities. Out of the total monthly search volumes related to mutual funds, B15 cities accounted for 11% in 2015 and 38% in 2018. Refer Exhibit 4.6. This growth is more concentrated in mobile-based devices rather than desktops. For instance, 70% and 62% of online searches for SIP in B15 and T15 towns respectively were through mobile devices.

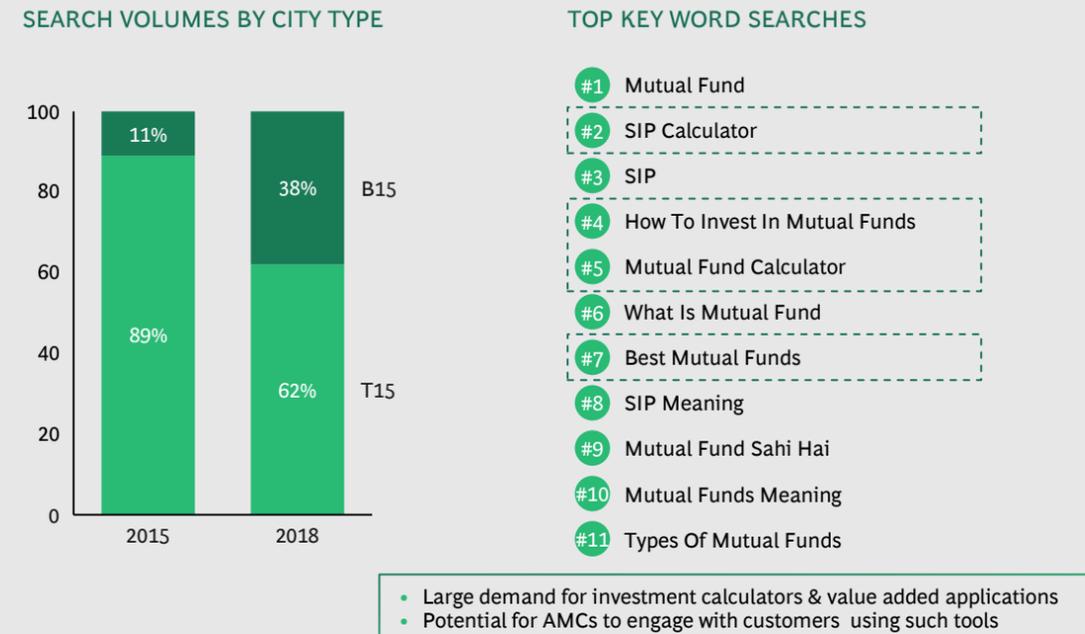
Investing in digital is increasingly becoming a pre-requisite for AMCs. However, digital should not be confused with direct. Digital should be leveraged not only as a sourcing channel but also for providing tools and calculators required by different customer segments to make choices as well as analyze their portfolio performance. Google search trends indicate that top keyword searches excluding company-specific searches are often focused on tools and calculators. Such platforms could be one way of engaging with investors on a continuous basis.

Reimagine Core Customer Experience

Nielsen survey data shows that 58% of first time investors indicated that investment in mutual funds required a significant amount of documentation. A similar consumer sentiment is observed in the back-end processing times and servicing experience of customers. 56% of investors felt that transactions often took too long to complete and 48% had to follow up multiple times to ensure that the transaction was processed.

Significant scope exists for a complete re-imagination of the customer experience including engagement post on-boarding of the investor. While the regulator has taken steps to simplify the on-boarding process by introduction of KRAs, there continues to be a gap between CKYC, KRA and e-KYC. Fintechs such as Zerodha and PayTm Money have leveraged a low cost offering combined with superior user experience to make significant inroads into the securities and mutual fund space. Zerodha successfully built the largest retail broking platform by number of active customers; and PayTm Money has a launched a “mobile first” mutual fund platform offering online purchase of mutual funds at zero cost.

EXHIBIT 4.6 | Strong Surge in Online Activity



Source: Google.
 Note: Excludes company specific searches.

Automation of back-end processes is another area that needs to be a key part of the agenda for the industry. This is especially relevant for the processes executed by RTAs. Automation will enable not only better turnaround times and reduce errors, but also enable the RTAs to service the increasing investor base without a proportionate increase in headcount and hence costs. Initial estimates indicate that automation and digitization can help reduce 30-35% of manpower costs at the RTAs. Given that RTA costs are typically 2-6% of the total expense ratio (TER) (based on asset class), it can unlock significant value for the industry and individual AMCs.

Exploit Technology Across the Value Chain

Technology and analytics can create significant value in asset management. By design, asset management is a “brain-dependent” industry; alpha generation is based on investment decisions supported by differentiating data and / or analysis, thereby allowing for a strong use case for investment in technology and analytics. Investment has generally been a complex topic for most re-

tail clients. Technology today allows us the opportunity to make it more attractive through intuitive digital tools and appealing product packages. Similarly, it provides an opportunity to get a direct view of retail clients providing B2B2C and potentially B2C investment platforms. Technology also allows us to manage the operations better, more effectively and at reduced costs.

Globally, large asset management companies have already made significant investments in building technology and analytical capabilities. For example, Blackrock has set up a data and analytics ‘factory’ with 600+ professionals. Similarly T. Rowe Price set up a new technology and development center with 60+ data scientists and developers.

Technology can enable asset management companies to target the trinity of risk management, lower costs and improved efficiency; and deliver seamless customer experience without compromising on any of them. This can be achieved by deploying technology across the value chain. Exhibit 4.7 illustrates select use cases across each element of the value chain basis our global experience.

Leverage Partnerships to Expand Capabilities

The digital world is extremely fluid with new players emerging every day. With all the changes in technology and continuous innovation, it is increasingly becoming impossible for one company to do it all. Therefore the need of the hour is to partner. Partnerships can be of multiple types. Incumbent asset managers - payment bank partnerships are one obvious category, where established asset managers with deep product expertise partner with fintechs who have access to a large active customer base. Similarly asset manager - e-commerce player partnerships are another category that provide asset managers with access to a large customer base transacting online. Another archetype could be partnerships with regional rural banks or small finance banks to access customers who are not digitally savvy and need hand-holding to come into the fold. Refer Exhibit 4.8.

All the above examples of potential partner categories have access to a large, recurring customer base. Estimates indicate that ~150 million online shoppers are active across

multiple online ecosystems from e-commerce to payment applications. A combination of carefully selected partners with a strong value proposition and end-to-end integration can create significant value for the fund houses.

Awaken Industry to Self-Governance

There are major changes sweeping several industries. In comparison, what is happening in the MF industry is rather modest. IT, telecom and pharmaceuticals are examples of industries where the magnitude of the changes and disruptions has been of a much higher order. Some of the recent regulatory changes in the MF industry have been due to the inability of the market's competitive forces to bring equilibrium into the market from an investor standpoint.

The next wave of growth should not come at the cost of compliance and governance. Proactive regulation will gain increasing prominence in the years ahead. An important means of ensuring the same will be to build

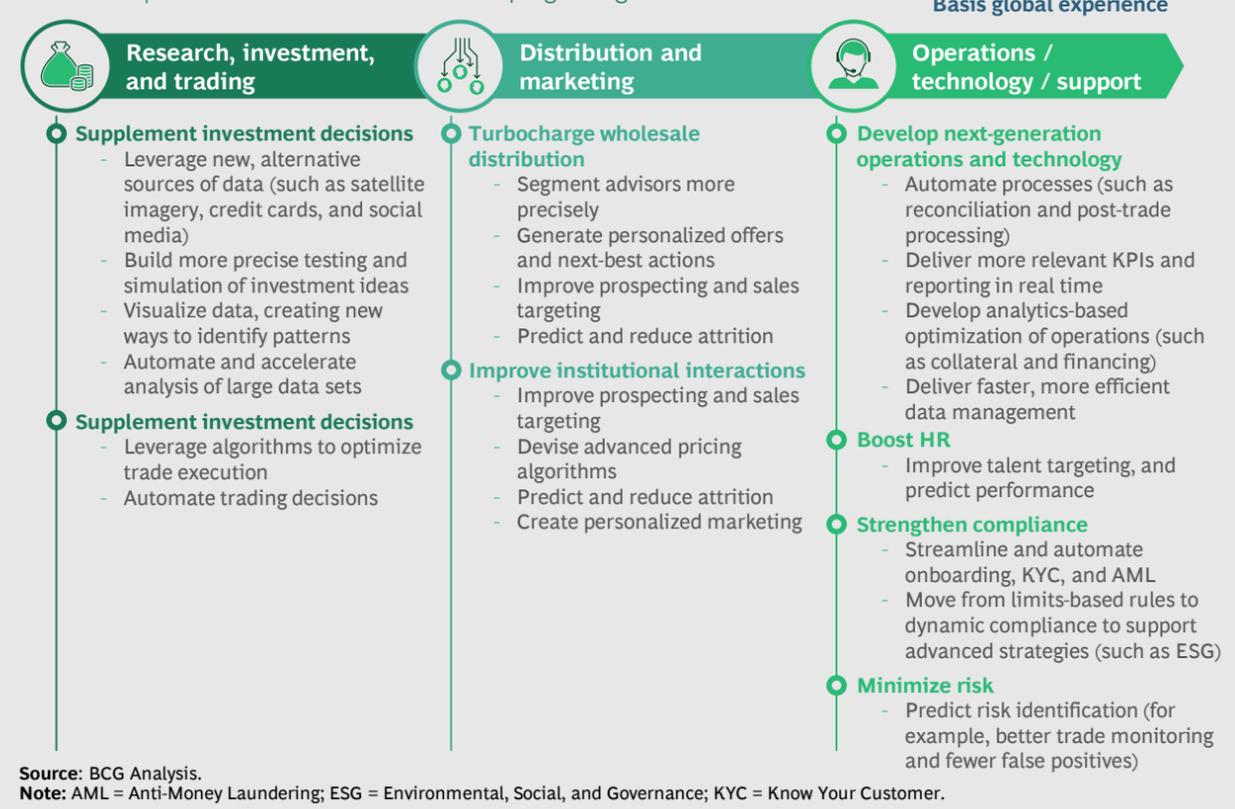
EXHIBIT 4.8 | Partnerships to Play Key Role in Driving Future Growth

POTENTIAL PARTNERS	REGIONAL RURAL BANKS, SFBS ETC.	PAYMENT BANKS, DIGITAL WALLETS	E-COMMERCE PLAYERS (Regulatory approval pending)
	Allahabad U P Gramin Bank	Airtel Payments Bank	Amazon.in
	Karnataka Vikas Grameena Bank	Paytm	makeMytrip
	Andra Pragathi Grameena Bank	Jio Money	Yatra.com
	...	India Post Payments Bank	Flipkart
	...	Fino	...

PLATFORM SPECIFIC PRODUCT INNOVATIONS	<ul style="list-style-type: none"> • Micro-SIPs (Average Rs. 500+) • FMPs/ MIPs/ SBI DAF • Auto-pause SIPs based on seasonality (applicable for small farmers) 	<ul style="list-style-type: none"> • Auto Sweep into money market funds • Invest 'change' from transactions into equity/ debt funds • SWP for monthly subscriptions – E.g. to Netflix 	<ul style="list-style-type: none"> • Fund for expensive purchases – E.g. SIP for a holiday • Auto sweep refunds into a mutual fund
	~50 MILLION CUSTOMER BASE ¹	~150 MILLION ONLINE SHOPPERS ² ACTIVE ACROSS MULTIPLE ECOSYSTEMS	

Source: Web Search, ASSOCHAM Study.
1. Customer base for MFIs. in FY19. 2. Customer Base of all online shoppers in 2018.

EXHIBIT 4.7 | Concrete Use Cases are Developing Along the Value Chain



processes and structure that focus on self-governance by asset management companies. While many of the Asset Management Companies in India have always invested in a robust risk management and governance practices, it's imperative for the industry to invest in adequate risk management infrastructure and reduce reliance on external stakeholders to sustain the past growth. Ensuring self-discipline in the rush for market share will be important to avoid unwanted practices.

In this era of disruption, it would be prudent for the regulator to promote self-regulation with emphasis on proactive compliance and controls. Recommending the use of algorithms to identify and predict frauds / other malpractices can be one such push. For instance, complex AI algorithms are being employed by AMCs globally to help detect instances of fraud, money laundering and other malpractices. Similar algorithms are also being deployed by exchanges. This may reduce active intervention by the regulator and help predict potential risks significantly in advance.

Continued regulatory oversight and support

Regulation will play an equally important role in the achievement of this vision. Regulation will need to be an enabler in three key areas to support this vision:

- Investor education and awareness
- Enablers for industry expansion
- Incentives for growth of white spaces

INVESTOR AWARENESS AND EDUCATION

Only 9% of first time investors were made aware about mutual funds by individual AMCs. As against this, 40% of investors learnt about mutual fund through family, friends or chartered accountants.

As the industry continues to penetrate deeper into 'Bharat', it needs to continue the momentum from the success of the 'MF Sahi Hai' campaign. Investor education programs should be adapted to local languages and should reduce unnecessary jargon.

While many fund houses have been running such investor awareness camps, this needs to be scaled up and pushed by all players. The industry can consider structural regulatory interventions by creating a nationwide agenda (similar to the PMJDY for financial inclusion and PMAY for insurance). Globally, regulatory interventions have been very successful. America Savings Week has proven to be a successful model with 2x growth in individual savings since enrolling in the program. Refer Exhibit 4.9.

ENABLERS FOR INDUSTRY EXPANSION

The regulator also needs to play a key role in creating strong enablers for expansion of the industry. These include:

- **Simpler on-boarding norms:** Currently, there are distinct requirements across KRAs, CKYC and eKYC for different financial products across lending, insurance and investments. There is scope to better-leverage country resources (such as eKYC) to allow for acceptability of KYCs done by banks and other appropriate stakeholders.

- **Launch of focused social programs:** India's support infrastructure for old age and post retirement is limited to PF and the recent NPS push. However, NPS too is yet to take off significantly. There is scope to introduce regulatory interventions such as the 401(k) program in the US to provide for long term pension support for the growing elderly population in the country. Refer Exhibit 4.10.
- **Consistent taxation norms:** There continue to be gaps within various taxation laws, creating imbalance in tax treatments and hindering growth for the industry. Both round tripping and GST are areas that can be looked at to provide the requisite interventions. With the introduction of long term capital gains tax on equity investments in the budget session, MFs are disadvantaged versus ULIPs. It will be imperative to level the playing field in terms of cost to the investor to enable them to make informed decisions based on the risk profile alone. Eighteen per cent service tax on management fee is among the top three components of TER today. We need

EXHIBIT 4.10 | US Leveraged 401(k) Program To Create Long Term Pension Support

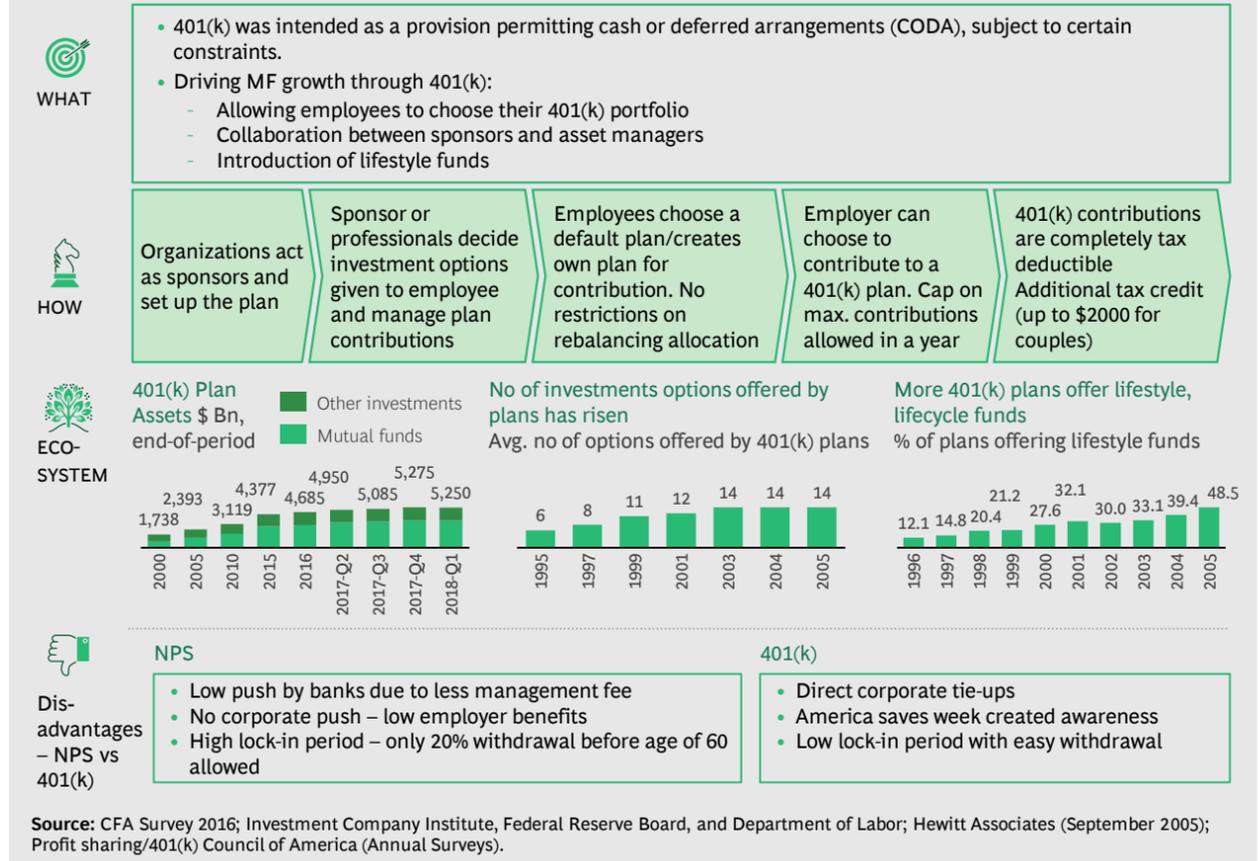
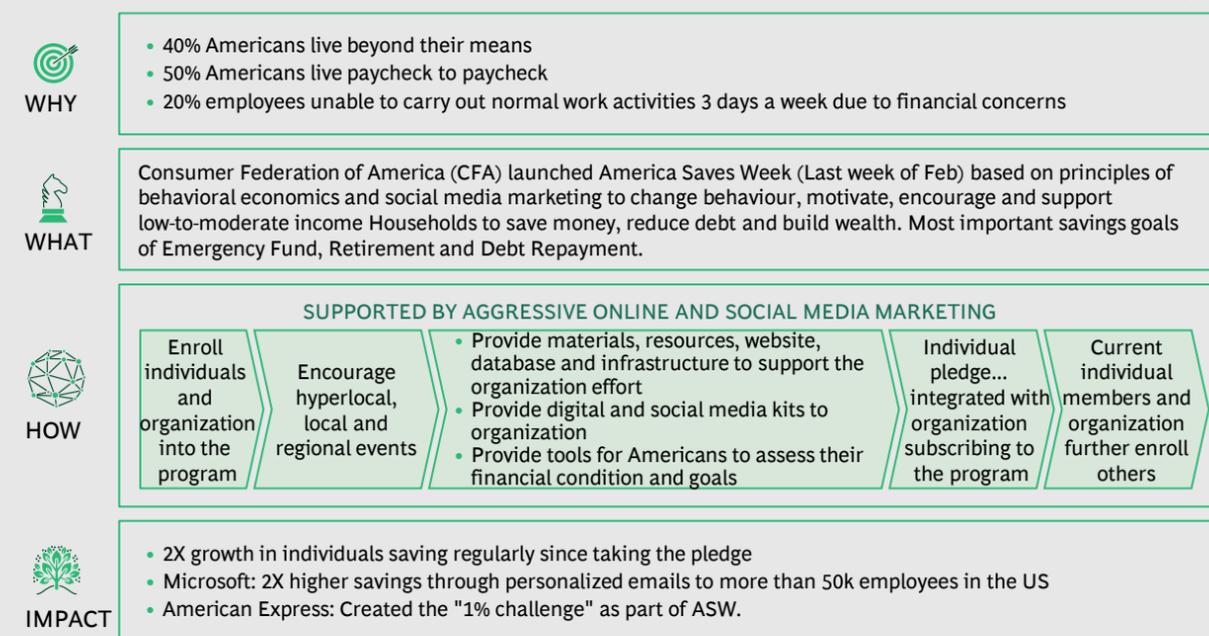


EXHIBIT 4.9 | America Saves Week—Improve the Financial Well Being of Americans



to evaluate options such as differential slab rates similar to that in the GST system to reduce the tax burden and therefore bring down TER. Investing in MF is no longer a way of wealth creation only for HNIs. As we move towards our goal to penetrate 'Bharat', we must transform mutual funds into a more affordable investment instrument.

INCENTIVES FOR GROWTH OF WHITE SPACES

The regulator has incentivized penetration into 'Bharat' with additional TER for B30 growth. This has been very effective, with B30 growing from 9% to 19% over the past five years. Bringing in the next wave of INR 75 trillion AuM and 8 crore investors will need more white spaces to be addressed. These white spaces extend across different geographies, distributors, IFAs and customer segments.

In this context, learning from the successful experience with B10-B15-B30 cities, the country will benefit from incentivizing 'new' growth. Such incentives could focus on:

- New customer additions (PAN card basis)
- New geographies (to drive newer B30 cities to get into the fold)
- New distributors (new ARNs. The regulator can also look at the concept of "tied distribution" where AMCs who bring in new IFAs can work exclusively with them for some time)

Incentivizing basis "new" customers or distributors obviously comes with the challenges of potential misuse. However, the country needs to address such challenges to continue the strong trajectory of the industry.

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A report by Boston Consulting Group, August 2019

FIBAC 2019—Annual Benchmarking and Insights

A report by Boston Consulting Group, August 2019

Global Asset Management 2019—Will These 20s Roar

A report by Boston Consulting Group, July 2019

Global Asset Management 2018: The Digital Metamorphosis

A report by Boston Consulting Group, July 2018

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FIBAC 2018: Providing Financial Services to SMEs in an Increasingly Digital Ecosystem

A report by Boston Consulting Group in association with The Federation of Indian Chambers of Commerce and Industry (FICCI) and Indian Banks' Association (IBA), August 2018

Global Retail Banking 2018: The Power of Personalization

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Encashing on Digital: Financial Services in 2020

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Digital Innovation on the World Stage

An article by Boston Consulting Group, May 2018

Digital Lending: A \$1 Trillion Opportunity over the Next 5 Years

A report by Boston Consulting Group, July 2018

Understanding the Financial Needs of an Evolving Population

An article by Boston Consulting Group, December 2015

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