



Asset Management Industry in India : An Overview

“Paying for Efficient and Effective Markets”

March 22, 2019
London



Outline

- Context
- Trends
- Initiatives
- Challenges

- Indian economy at a glance
 - Size > USD 2.8 trillion, growing @ 7%
 - 3rd largest (PPP basis); 6th largest (nominal GDP); 3rd largest by 2030 (nominal GDP)
 - Diversified : Agri-15%; Industry- 30%; Services-55%
 - 1/6th of World Population; >50% below 25 and >65% below 35; >20% middle class
 - Consumption ~2/3rd of GDP, growing @6.5% in last three years
 - Market Capitalisation : USD 2.2 trillion

- Financial Market (% of GDP)
 - Market Cap : 80%
 - Bank Credit : 60%
 - MF AUM : 12%
 - Insurance AUM : 18% (Life); 1% (non-Life)
 - Pension : 7% (EPFO); 1.5% (NPS)

Comparative Market Returns

	CAGR (%) in Benchmark indices			
	As on March 15, 2019			
	3 year (2016-19)	5 year (2014-19)	10 year (2009-19)	15 years (2004-19)
Brazil	28%	17%	10%	11%
Russia	16%	3%	5%	3%
India	16%	12%	16%	14%
China	2%	9%	4%	4%
South Africa	2%	4%	11%	12%

- CAGR of SENSEX since inception (April 1979 - 40 years) : 15.4%

Trends - Growth of Mutual Funds in India

(1/4)

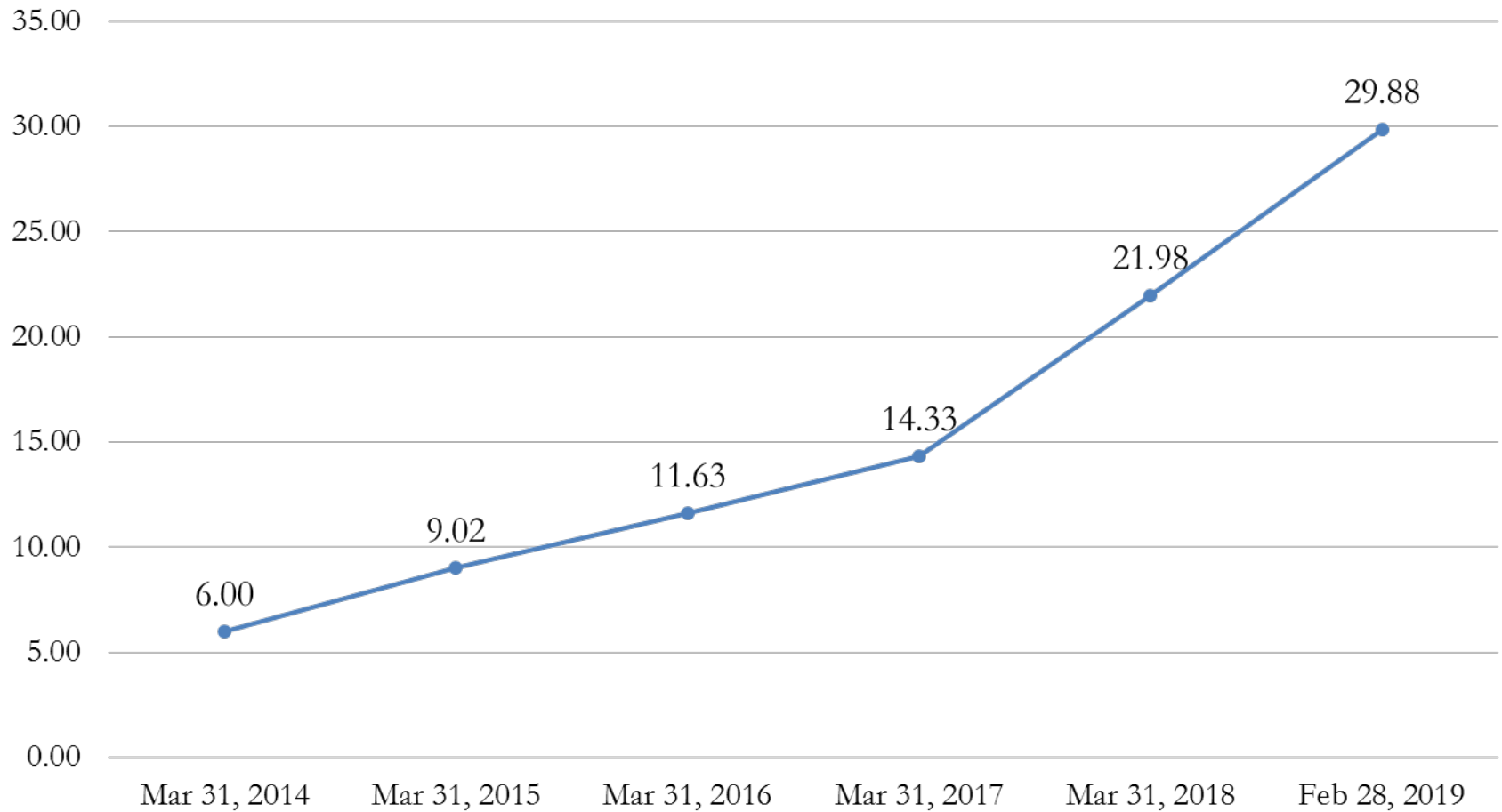
(USD Billion)

	2007-08		2012-13		2017-18		2018-19 (Apr-Feb)	
	Net Inflow	AUM	Net Inflow	AUM	Net Inflow	AUM	Net Inflow	AUM
MMMF	3.75	22.37	0.59	17.17	(0.45)	51.58	17.90	68.54
Debt Oriented	22.24	55.94	15.99	74.29	(1.35)	122.91	(19.43)	99.23
Equity Oriented	11.74	43.22	(2.68)	31.98	26.30	115.27	14.08	116.47
ETFs (Gold + Others)	(0.69)	0.78	0.22	2.41	3.55	11.94	4.56	16.59
Others	1.44	4.07	(0.05)	3.38	13.73	26.69	1.44	24.53
Total	38.48	126.38	14.07	129.23	41.79	328.40	18.55	325.36
Number of AMCs								
Number	40		52		45		47	

Trends - Growth in Number of SIPs

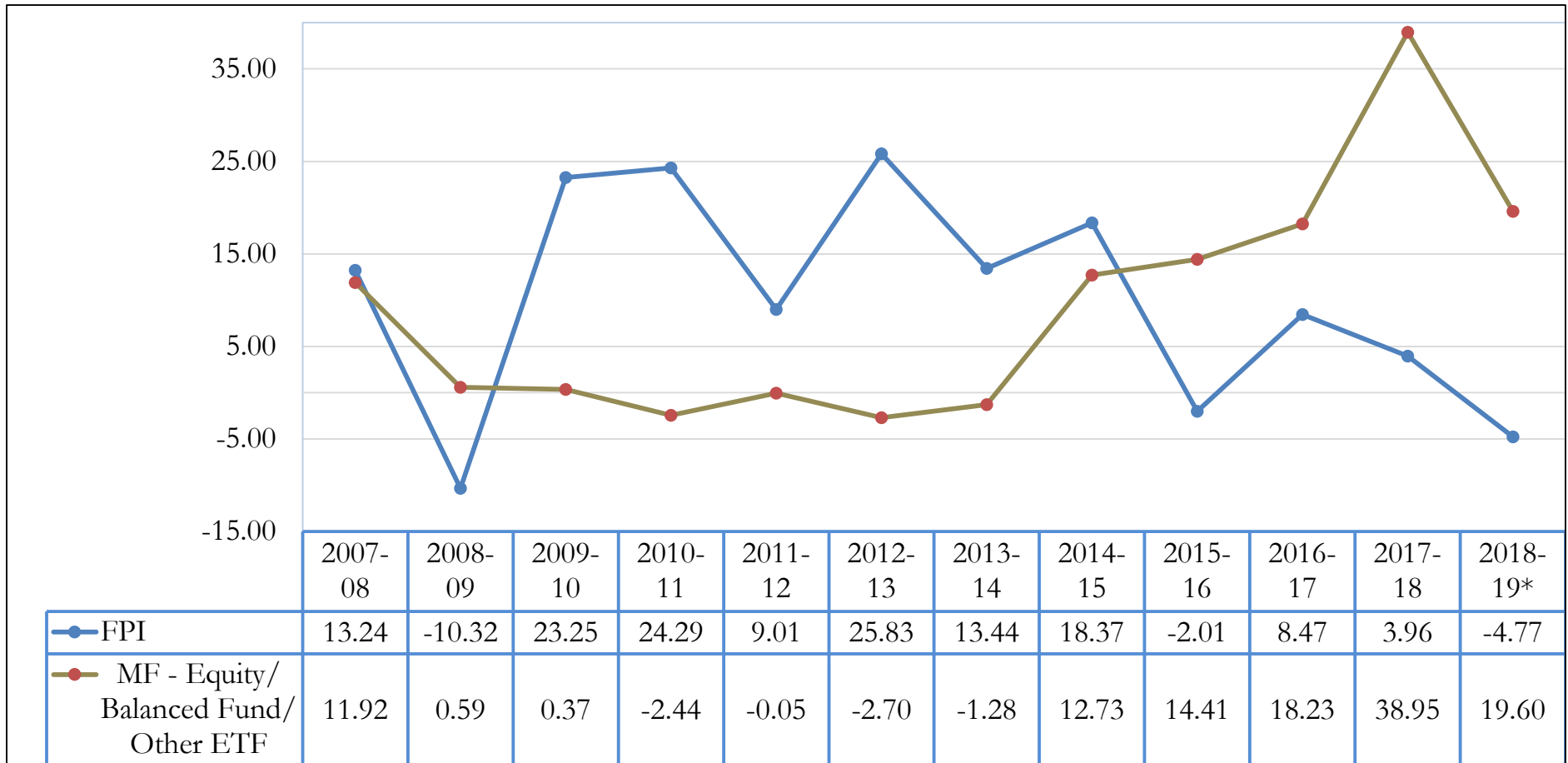
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In Million



Trends - MF vs. FPI (Equity)

(3/4)

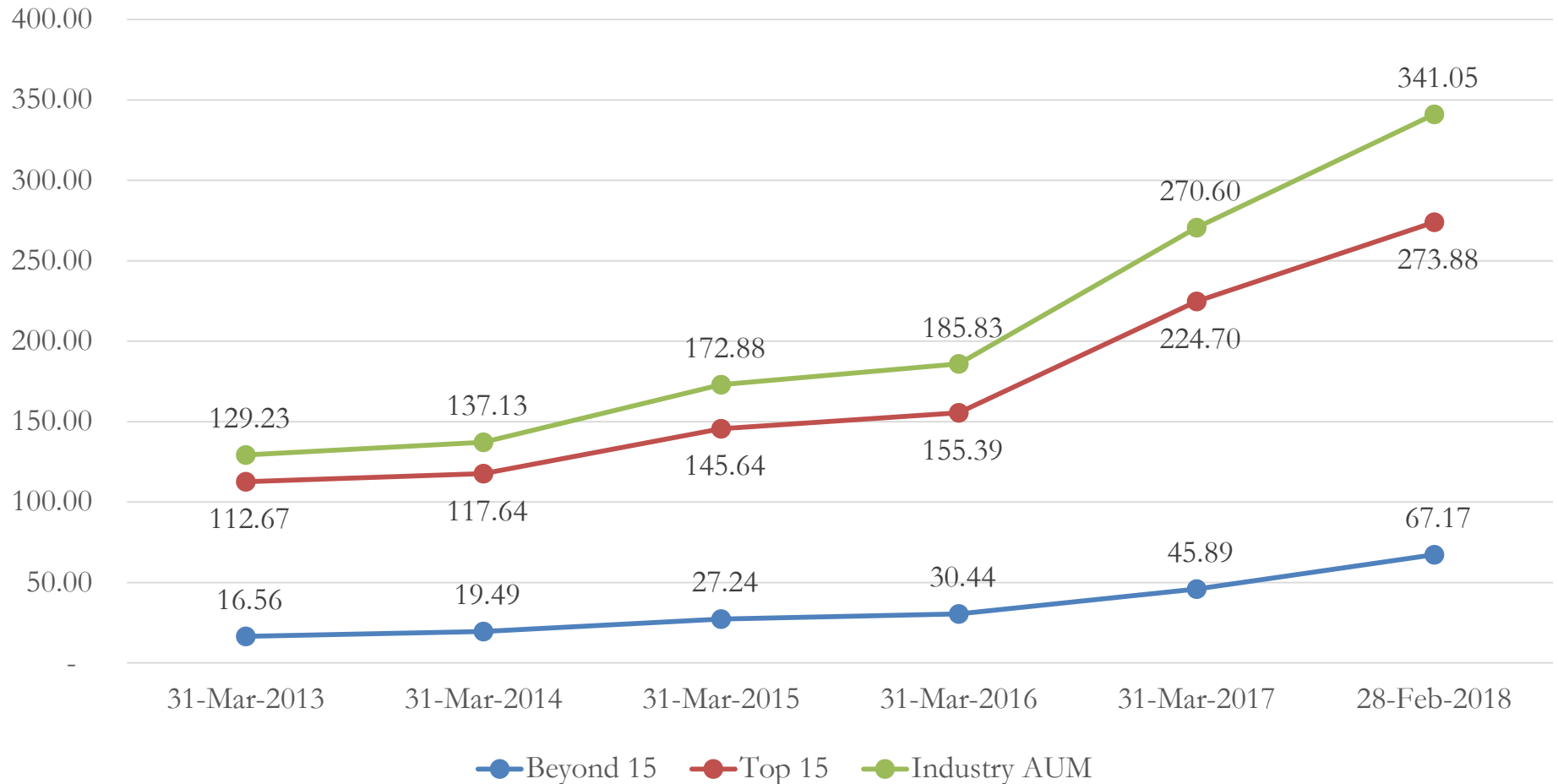


*Data in USD Bn. till Feb 2019

Trends - AUM – Top 15, Beyond 15 & Industry

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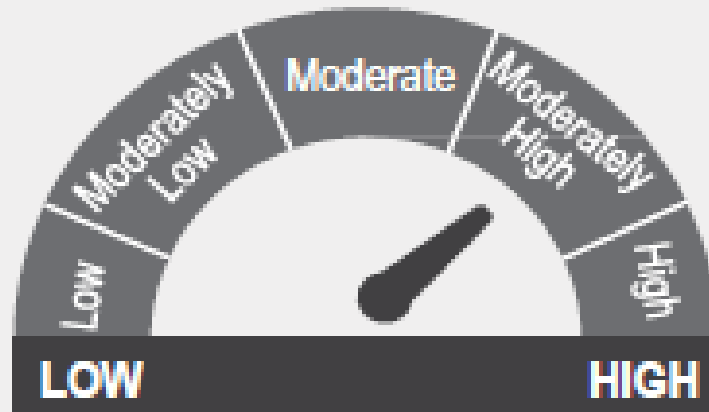
(USD Billion)



- **Enhancing Penetration**
 - Investor Education - 2 bps of daily AUM
 - B-15 / B-30 - Additional TER of 30bps

- **Disclosures**
 - Executive Remuneration
 - Commissions paid to Distributors
 - Total Expense Ratio
 - [Riskometer](#)
 - Portfolios for all schemes, monthly
 - Performance of all schemes, daily

Riskometer



Investors understand that their principal will be at Moderately high risk

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- **Structural**
 - Categorization and Rationalization of MF schemes
 - Expenses
 - Rationalisation of TER
 - Transparency
 - Doing away with Entry Load

- **Governance**
 - Limiting tenures of independent trustees and independent directors
 - Rotation of auditors
 - Limit on cross holding (10%)

- **Stewardship Role**
 - Disclosure of Voting Exercise along with Rationale

▪ Risk Check

Credit Risk	Market risk	Liquidity Risk	Criticality/Non-Substitutability Risk
×	×	√	×

▪ Risk Management Tools

- Prudential Norms – Issuer, group, sectoral limits
- Fair Valuation
- Stress Testing of Liquid and MMMF
- Side Pocketing: Creation of segregated portfolio for distressed assets during credit events.
- Liquidity Management Tools- Exit Load, Redemption Gate, Credit for Redemption
- Additional liquidity support - Discretionary as a last resort
- Internal Credit Risk Assessment

- **Too much money chasing few investment opportunities**
 - Limited growth in new equity listings
 - MF quest for higher alpha, especially by debt schemes

- **Inter - connectedness**
 - Mutual Funds and Banks

 - Sizable MF investments in CPs of NBFCs / HFCs :

	CPs	
	USD Bn.	Share*
As on March 31, 2018	47.39	46%
As on January 31, 2019	59.35	66%

* MF share in outstanding CPs issued by NBFCs/ HFCs

- **Regulatory Arbitrage in Disclosures**
 - Upto 1 year debt instruments under RBI, beyond 1 year with SEBI
 - Enhancing disclosures for MFs to invest in CPs

- **Valuation** – Guidelines for MFs being strengthened

- **Liquidity management by Liquid MFs**

- **Loan against shares**
 - Trustees to review MF exposure in promoter group entities/ Structured Obligations (SOs)
 - Enhancing disclosure and monitoring

Thank You