Mutual Fund Industry in India

Background:

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In the last 30 years, the Indian mutual fund industry has built up a creditable performance record, and the line-up of both asset management firms (41) and schemes (2100) has burgeoned. But despite this, mutual funds garner a measly 7 per cent of the household financial savings pie and a majority of players are yet to attain viable scale and profitability.

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Reasons for slow growth can be attributed to the restrictive regime of the Securities and Exchange Board governing the advertising and brand-building efforts of MFs.

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What are the steps taken by SEBI?

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The regulator is steadily watering down these rules, but to give MF penetration a real boost, SEBI must go the whole hog and stop its rule-based regulation of MF advertising. SEBI's latest tweaks relate to performance-related advertisements.

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- The new rules allow MFs to advertise their trailing returns for one, three and five years, in place of calendar-year returns mandated earlier.
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- Funds have been allowed to present returns as of the latest month-end, as opposed to the quarter-end.
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- Data on all other schemes managed by the same fund manager can now be summarised, instead of featuring in the advertisement.
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- SEBI has also unbent a little on its ban on celebrity endorsements for MFs, now allowing them at the industry level, though not for individual funds.
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- These changes are, no doubt, welcome and will make life much simpler for both investors and fund houses.
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Drawbacks:

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But even after these changes, some archaic rules remain.

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- The requirement that all television advertisements should be clear and audible is fair enough, but not the diktat that the standard warning “contain 14 words and run for at least 5 seconds”.
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- Subjecting all new launches to SEBI scrutiny is fine, but the regulator’s practice of disallowing any scheme name that isn’t purely functional makes labelling dull.
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- While misleading or overblown claims are justly barred, the rules also frown upon ads with comparisons, “unwarranted” slogans, “excessive” details or those that “exploit the lack of experience of investors”.
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- The logic for the ban on celebrity endorsements at the fund house level is also difficult to fathom, given that they are widely used in both banking and insurance.
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Conclusion:

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In short, the present advertising rules short-circuit any attempt by MFs to employ the normal branding techniques used by other consumer firms to differentiate their offerings.

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No wonder then, that all mutual fund schemes in a category today appear to be clones of each other. Over-strict rules don’t just hobble efforts by established players to make the product interesting to laypersons; they also prevent new entrants from gaining ground through innovative advertising or branding.

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While framing such detailed advertising guidelines was probably necessary a decade ago when investor awareness about markets and MFs was in a rudimentary stage, the markets have since evolved. SEBI should thus consider moving to a purely principles-based approach to MF advertising.

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Source: Business Line

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