



Consultation Paper on
Amendments/Clarifications to the
SEBI (Investment Advisers)
Regulations, 2013, published on
October 7, 2016



LIKELY IMPACT

- Existing investors will be orphaned
- Advise Gap - Leading to only HNI's / large corporates being serviced to the exclusion of retail investors
- Total cost to investor will increase
- Not in investors favor and especially harmful to the retail investors community
- Will lead to a dramatic fall in number of distributor selling mutual funds
- Resulting in lower financial penetration and financial exclusion



FINDINGS OF FCA - UK

- A study has been conducted by FCA of the experience post the banning of commission since 2013 and shift to a fee based model in U.K. The final report of this study was released in 2016.
- Study confirms the creation of an “Advice Gap”; namely lot of investors being serviced earlier in the commission model are no longer serviced under the Fee Model.
- The minimum investible amounts for an investor to be serviced by an adviser has gone up substantially – leaving retail investors unserved.
- Steep reduction in the number of advisers.
- Increase in total cost to Investor (MF expenses + Fees Paid directly) paid now are higher than in the earlier embedded cost structure.

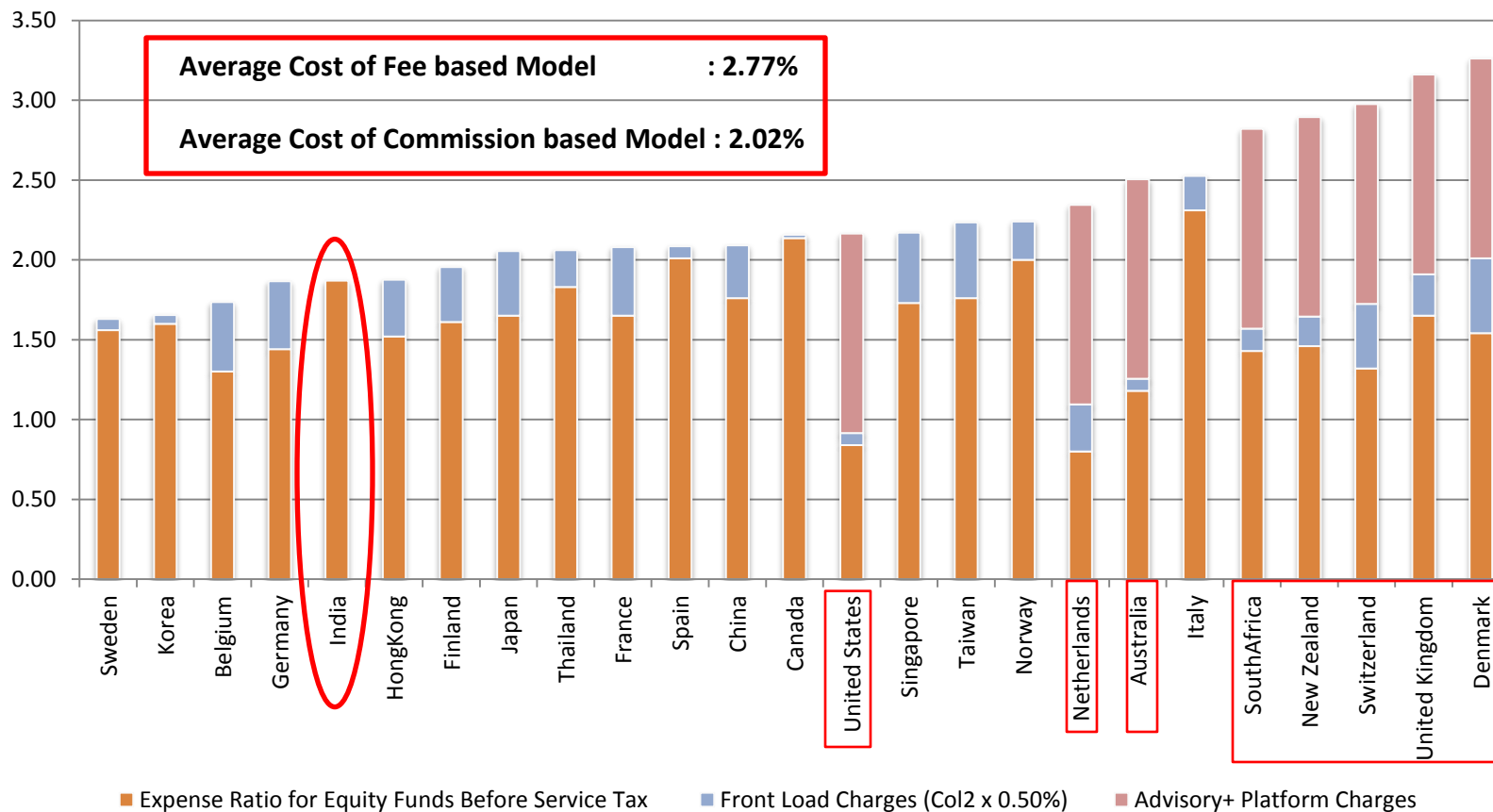


INCREASE IN COST

- Evident from FIFA's study of expense ratios of 25 countries. We have shared findings with SEBI earlier.
- Based on the above study the average expense ratio's are as under
- Countries with the Fee Model - 2.77%
- Countries with Commission Model - 2.02%



Summary of Cost of Ownership of Equity Funds for 25 countries





Sumit Bose Committee

On Complete Ban on Commissions :

- “The Indian Market also suffers from a lack of Market for advise. Retail customers are not accustomed to paying for holistic advise. A body of financial advisors capable on advising on the entire portfolio of products is also not available. It was, therefore, felt that a complete ban on commission in such an environment would be counter productive.”



Sumit Bose Committee

- The committee arrived at a view that what was required was rationalisation of commissions and disclosures mandates across all financial products, such that products become comparable and provide reasonable and comparable remuneration



Commission – High or Low ?

Aggregate Commission Payouts			
Financial Year	Commision Rs Cr	AUM Reg Plan	% of Comm to AUM
2013-14	3,280	575,029	0.57%
2014-15	6,007	749,339	0.80%
2015-16	4,755	804,810	0.59%
2016-17	3,507	1,053,000	0.33%



Mis-selling a Myth ?

- Concerns if any about mis-selling on account of conflicted advise are completely unfounded especially in light of the data shared by SEBI which showed a total commission payment of 3500 crores on regular plan AUM of 10 lac crores which works out to only 0.35%.
- At the recent CII- Mckinsey meet, Karvy has shown data that showed that churn was higher in cases where the investor had invested under the direct option as compared to cases where the investor was advised by IFAs and other distributors.



Mis-Selling A Myth ?

- An apprehension of mis-selling or wrong sales driven by commission is not sufficient to completely change the regulations and bar distributors from giving advice and receiving commissions.
- Wrong doers if any need to be penalised rather than making regulations which will effectively kill the whole distribution system which is going to impact the financial inclusion..... leading to more disparity between rich and poor....



MFs a Rich Man's Product ?

- If the proposed regulation banning distributors from giving advice is implemented, then
 1. Large number of existing investors will be orphaned, as the small ticket size investors won't be prepared to pay the fees (average ticket size of an SIP is 2,500 per month). The RIA will not find it viable to service these investors.
 2. Due to viability only the rich with a large investment corpus will be serviced and Mutual Funds will become a rich man's product rather than the product for the masses.
 3. Once there is an advice gap the orphaned retail investor is bound to invest in Ponzi schemes, and other inappropriate products .



THANK YOU