

# Track: E-Commerce as a Catalyst for Change

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Received 05 November 2018 • Revised: 23 November 2018 • Accepted: 02 December 2018

## **Abstract:**

### **ON-LINE MARKET PLACES REDEFINING MUTUAL FUND DISTRIBUTION**

With the growing e-commerce trend, competition heats up among the online market place giants. E-commerce giants look to offer new product offerings by completely redefining the online space. An article by Shashikant Singh in the dalal street, states that a study done by ASSOCHAM-Forrester, Indian e-commerce is growing at an annual rate at 51%. This is the highest in the world and is expected to reach USD 120 billion in 2020. The retail sector is also registering a positive trend of 11% CAGR and this is expected to touch USD 1 trillion by 2020. More and more people are being added to the virtual world daily. The entrance of technology will not only impact the traditional markets like clothes, books, electronic items but also new markets which have remained untouched till now. Online customers enjoy the convenience of shopping from the comfort of their homes for grocery, listening to music. This comfort shopping which customers experience can very soon become a reality for investors of financial services industry. With the digitalization fast catching up the mutual fund industry, investors can choose to make investments conveniently like shopping. This also fulfils the financial inclusion notion of RBI successfully. The initiative assures that mutual fund products become more accessible. The aim of the paper is to trace the growing e-commerce trend in the mutual fund industry and examine the special strategies that need to be adopted given the unique nature of the industry, where investment advice is a prerequisite for most first time investors. The study is descriptive in nature. The importance of extending online market places like Flipkart and Amazon to sell mutual funds to make these products more accessible to people are discussed.

**Keywords:** Mutual Funds, E-Commerce, Financial Inclusion

### **List of Abbreviations Used**

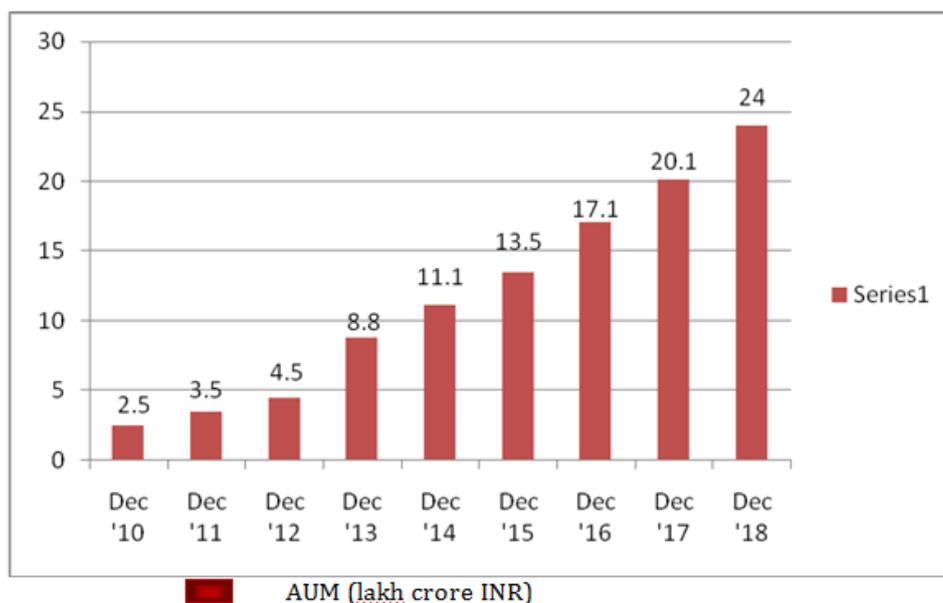
<b>Abbreviation</b>	<b>Full Form</b>
AMFI	Association of Mutual Funds in India
AUM	Assets Under Management
INR	Indian Rupee
KYC	Know Your Customer
SEBI	Securities Exchange Board of India
T-15 Cities	The top 15 cities identified by AMFI as major investment hubs. Cities include Mumbai, Delhi, Bangalore, Kolkata, Chennai, Pune, Ahmedabad, Hyderabad, Baroda, Panjim, Jaipur, Lucknow, Surat, Kanpur and Chandigarh

### **INTRODUCTION**

The world is rapidly responding to India's digital revolution. The country is in the cusp of a breakthrough backed by several efforts to move towards a cashless economy. According to EY's 2017 Attractiveness Survey, India will be among the world's top three investment destinations. This presents both challenges and tremendous opportunities for the Indian Mutual Fund Industry. The industry has done exceptionally well in the last ten years reaching a total corpus of 17 lakh crore INR.<sup>1</sup> Since December 2014, there is an increase in investor accounts from 4.03 cr to 7.79 cr in September 2018.

<sup>2</sup> The AUM of the Indian MF Industry has grown from ₹ 2.1 trillion as on 31st October 2008 to ₹22.24 trillion as on 31st October, 2018, more than tenfold increase in a span of 10 years.

However the mutual fund penetration is still low and the industry has high potential for growth. In India, the mutual fund AUM/GDP ratio is significantly low at 7% (as of 2015), compared to 114% in Australia, 91% in the US and 51% in the UK according to PwC-CII report.<sup>3</sup> This is a vast untapped opportunity for MF houses. The confluence of technology and enabling regulation will help the industry to broaden and deepen its reach amongst retail investors.



Source: AMFI Website

## GROWTH DRIVERS FOR INDIAN MUTUAL FUND INDUSTRY

**Strong Macro-Economic Fundamentals:** India's economy grew at an impressive 8.2 percent in the first quarter of 2018-19 financial year ending June 30 on the back of a strong core performance and a healthy base.<sup>4</sup> This is the highest growth since two years and strongest since the first quarter of 2016.<sup>4</sup> During the same period, the world's second largest economy, China, reported a 6.7% per cent. According to World bank data India surpassed France in 2017 by GDP numbers and it will not be far before it crosses the United Kingdom. This could augment further development of capital markets and thereby drive retail investor participation.

**Low penetration in terms of investor wallet share:** To propel the growth of MFs, SEBI has been introducing several new reforms. While the introduction and rise of direct plans and extensive investor education campaigns have boosted the growth of individual investors, there is a skewed investor participation rate across cities. The T-15 cities contribute to 87% of the entire AUM in the country. Even within the T-15 cities, the top five cities contribute to 85% of the AUM at the T-15 level i.e. 74% of the entire AUM in the country (PWC, 2016). SEBI is keen on deepening mutual fund penetration beyond tier I cities in India.

**E-KYC Initiatives:** The industry is one of the fastest adopters of technology which has contributed to the ease of transactions eg: E-KYC for a first-time investor. More clarity on E-KYC will aid the penetration of hitherto untapped un-served segment.

**Favourable Demographics:** India benefits from favourable demographics. By 2021, 64% of India's total population will be in the working age group<sup>5</sup>. Millennial are the largest and fastest growing adult segment across the globe and present a great opportunity for the asset management industry. Favourable demographics, rising income levels and affluent middle class will provide a strong customer base for the mutual fund sector.

### Other Government Initiatives to Boost Digitalization

- Recently approved payments bank with permission to sell third party mutual fund products are expected to improve the reach

- Financial inclusion has received a fillip with the JAM number trinity (Jan Dhan, Aadhar & Mobile), and opening of 192 mn Jan Dhan accounts in 15 months with a deposit base of Rs 27,000 crore. This builds the case for evaluating adoption of a similar model and cross-selling opportunities
- SEBI panel on digitization of financial services constituted under Nandan Nilekani, recommending the introduction of a new distribution channel through e-commerce websites like Flipkart, Amazon and Snapdeal.

### **ROLE OF E-COMMERCE INDUSTRY IN DISTRIBUTION OF MUTUAL FUNDS**

With the view to making the MFs more accessible to general public, the capital market regulator is set to allow online marketplaces such as Flipkart and Amazon to sell mutual funds. Companies like Flipkart and Amazon already offer loans to sellers in partnership with banks and NBFCs. The Chinese e-commerce giant Alibaba is a clear case of successful mutual fund distribution. They adopted a strategy wherein they deployed the surplus funds of their sellers in liquid funds through their wealth advisory firm Alipay which proved to be a big success. Later the company expanded their distribution business by offering other mutual fund schemes and financial products. Other e-commerce giants like Amazon already own stake in online distribution firm bankbazaar.com. Snapdeal has invested in financial services start up Rupee power that help people to compare credit cards and loans across banks.

### **BENEFITS**

The likelihood of a customer visiting well-known online marketplaces such as Flipkart, Amazon India and Paytm on a daily basis is much higher. The idea of SEBI is to attract as many potential MF investors as possible from day one without creating too much risk for customers. By not allowing too many players at one go, there are not much confusions for the customers. By acting as facilitator between the fund house and customers the online market places can come up with innovative ways of selling mutual funds houses. The participation of established online marketplaces as intermediaries will give potential customers a simple, seamless experience and reduce the chances of transaction-related disputes due to technical snags. If the process of doing additional KYC is done away with, then its a fantastic proposal for hassle free mutual fund buying. There are many more long-term benefits will accrue

### **SERVING THE GOAL OF FINANCIAL INCLUSION**

Financial inclusion in mutual fund industry will help penetration of MF in the rural sectors of India. Use of internet as a distribution channel serves the notion of financial inclusion ape in the sector. Far reaching innovative steps by RBI prove to be major turning points in spearheading the goal of financial inclusion. Just like how RBI's idea of payments bank and small finance banks will promote rural banking, the introduction of mutual fund distribution through e-commerce companies will go a long way towards the objective of financial inclusion. Also the objective of financial inclusion exercise is easy availability of financial services which allows maximum investment in business opportunities, education, save for retirement, insurance against risks, etc. by the rural individuals. The MF industry today is too on its way to innovate and surprise its investors both existing and potential with different features and facilities, that tend to make investing in mutual fund far easier than it used to be earlier.

### **CONCLUSION**

There is no doubt that technology is changing the way we interact with friends or even our electrical appliances, purchase and sell things and even invest. The juggernaut of constant innovation will continue even in the mutual fund space in India. While change is an anathema to some, it is essential in certain areas such as the financial services industry. The success of this partially depends on investors who need to embrace the change and start thinking 'e' rather than the traditional way. The availability of mobile apps, social networking, and popular instant messengers are also helping AMC's to connect with their investors through various mediums. The aim is to be like the Indian Railway Catering and Tourism Corporation's (IRCTC) e-ticketing website which is one of the most popular websites in India today not only for booking railway tickets but also for a host of transactions adding value, convenience and speed of transactions through technology to customers.

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