IAS PARLIAMENT
Information is Empowering
A Shankar IAS Academy Initiative

Mutual Fund Industry in India

Background:

\n\n

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.

\n\n

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.

\n\n

What are the steps taken by SEBI?

\n\n

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.

\n\n

\n
- The new rules allow MFs to advertise their trailing returns for one, three and five years, in place of calendar-year returns mandated earlier.
\n
- Funds have been allowed to present returns as of the latest month-end, as opposed to the quarter-end.
\n
- Data on all other schemes managed by the same fund manager can now be summarised, instead of featuring in the advertisement.

\n

- 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.
\n
- These changes are, no doubt, welcome and will make life much simpler for both investors and fund houses.
\n

\n\n

Drawbacks:

\n\n

But even after these changes, some archaic rules remain.

\n\n

\n

- 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”.
\n
- 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.
\n
- 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”.
\n
- 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.
\n

\n\n

Conclusion:

\n\n

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.

\n\n

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.

\n\n

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.

\n\n

\n\n

Category: Mains | GS - III | Economics

\n\n

Source: Business Line

\n

IAS PARLIAMENT

Information is Empowering

A Shankar IAS Academy Initiative