Confederation of Indian Industry

Distribution disrupted

Building a zillion distributors

November 2016

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Distribution disrupted

Building a zillion distributors

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Chairman's message

With perpetual technology disruptions, the world today is flatter than ever. While this offers a myriad of opportunities to explore business horizons, there are simultaneous challenges that demand attention. The financial world is no different, and the state of financial products and the benefits they offer are constantly being challenged with the new pathways of growth.

Undoubtedly, India is on a path of economic growth that is mirrored through the upward movement of its significant gross national savings. This is also seen as an ample pool of wealth that can significantly push the growth of financial institutions, thereby helping the country achieve better financial security. However, this can be leveraged with a strong sense of direction to promote financial products — mutual funds, pension schemes, insurance, etc. There is immense scope for Indian financial institutions to broaden their scope by approaching the bottom of the social pyramid, having two-thirds of India's population.

It is good to see that, over the past few years, the focus of product manufacturers has shifted from pushing products to enhancing customer experience. However, this is not enough. A successful financial product depends on its reach. Since there is a lot of scope for financial product consumption given the size of India's population, it has to be strongly supported by a sound lateral distributors' base. For instance, a positive step taken by SEBI has allowed retired individuals and postal agents to sell simple and performing products so as to increase the distribution base for mutual funds. It is certainly a thoughtful step to move to the interiors of the country. Although financial institutions are changing their strategy by focussing on technology to achieve a wider reach for their products, positive outcomes would depend on the approach to incorporate the human element with product distribution. With a conventional mindset, Indians still rely on a hand-held approach pertaining to buying financial products and making investments.

The 5th CII Financial Distribution Summit, 2016, would recognise the importance and critical role of the distributor community, focussing on building a strong force of millions of distributors to add a billion investors to the Indian financial markets.

In this context, this report by CII and KPMG in India aims to highlight the better and innovative distribution approaches that could help financial products reach a far greater (potential) audience for a positive outcome of the strategies being implemented. The market just needs to close the gap between the strategic goals and outcomes expected that exists due to lack of product reach.

V Ganesh

Chairman

CII Financial Distribution Summit 2016

Chief Executive Officer

Karvy Computershare Pvt. Ltd

Foreword

Dear all,

We are delighted to partner with CII for the Financial Distribution Summit 2016 and present this report to you titled – 'Distribution disrupted'. In this report, we intend highlighting some of the nuances of financial product distribution in India from the vantage point of product manufacturers and distributors.

Amidst evolving technology and regulation, this report unravels the current market potential for financial products and brings into spotlight the current distribution ecosystem with its pertinent challenges and methodologies.

The profile of an Indian investor is diverse; ranging from being unaware to tech-savvy when using financial products such as insurance, mutual funds and pension; with a majority of addressable investors needing trustworthy consultative advice on a continuous basis.

It is imperative for the players to cater to the changing investor needs and tap excluded segments through a channel of zillion distributors with a judicious mix of people and technology; to be able to add a billion investors to the Indian financial markets.

Building trust and understanding of financial products in these potential billion investors is a prerequisite for bringing substantial assets under management on a continuous basis for a longer period of time. Both physical and digital distribution channels have the potential to build this crucial trust and understanding in different ways depending upon the investor profile.

Fintech is helping product manufacturers bridge the gap between overall customer expectation and customer experience. While technology has an edge in terms of efficiency, scale and savings; physical distribution has a pivotal advantage of human contact which helps build stronger relationships.

To achieve high degree of financial product penetration, the distribution strategy has to be multi-dimensional in nature, creating a lucrative situation for all the involved stakeholders. Product manufacturers continue to adapt and change their strategy and form effective alliances with distributors; to garner higher market share and become the preferred choice.

We hope that you find this report insightful and thought provoking.

Thank you.

Naresh Makhijani

Partner and Head

Financial Services

KPMG in India

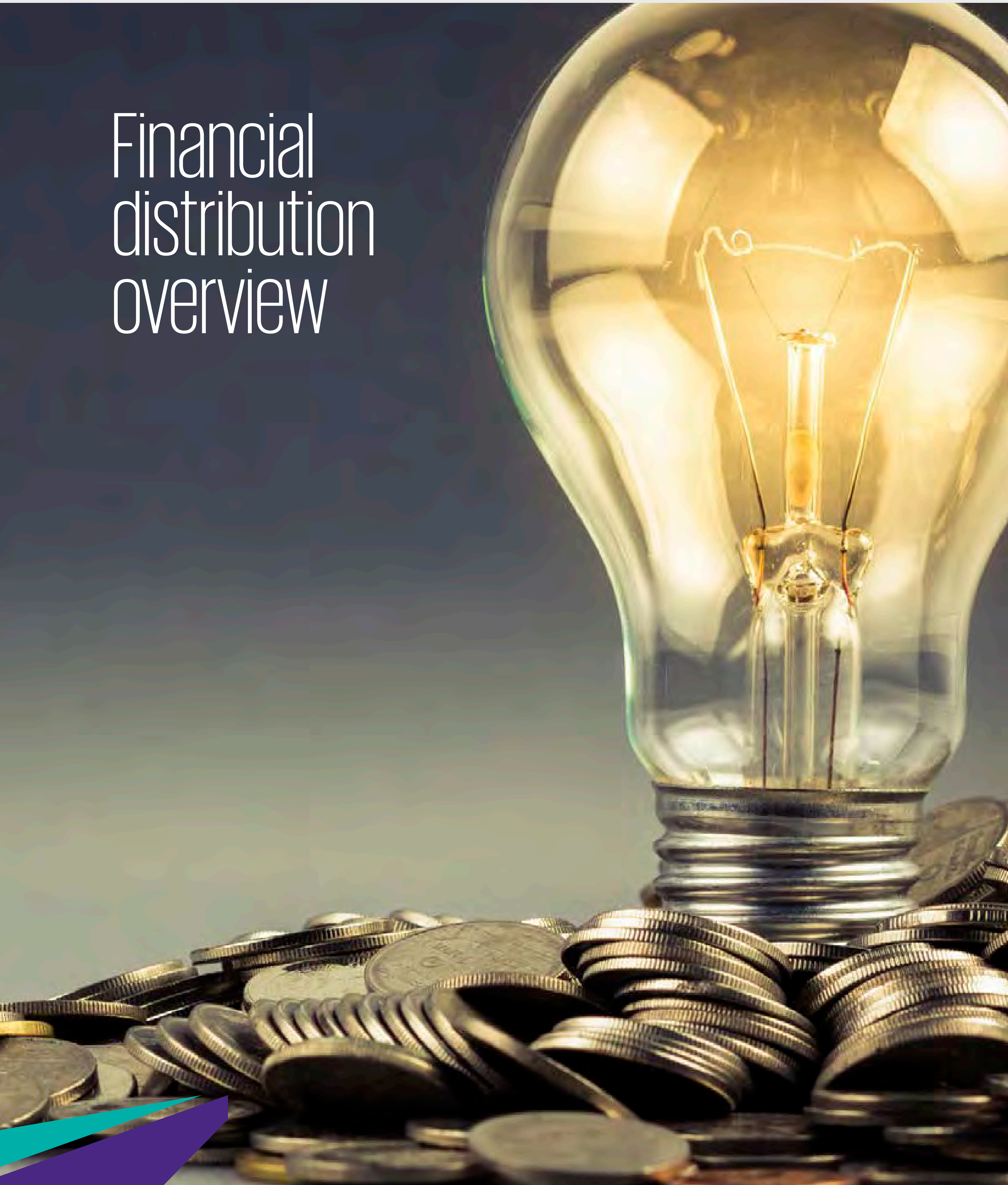
Harshvardhan Bisht

Partner

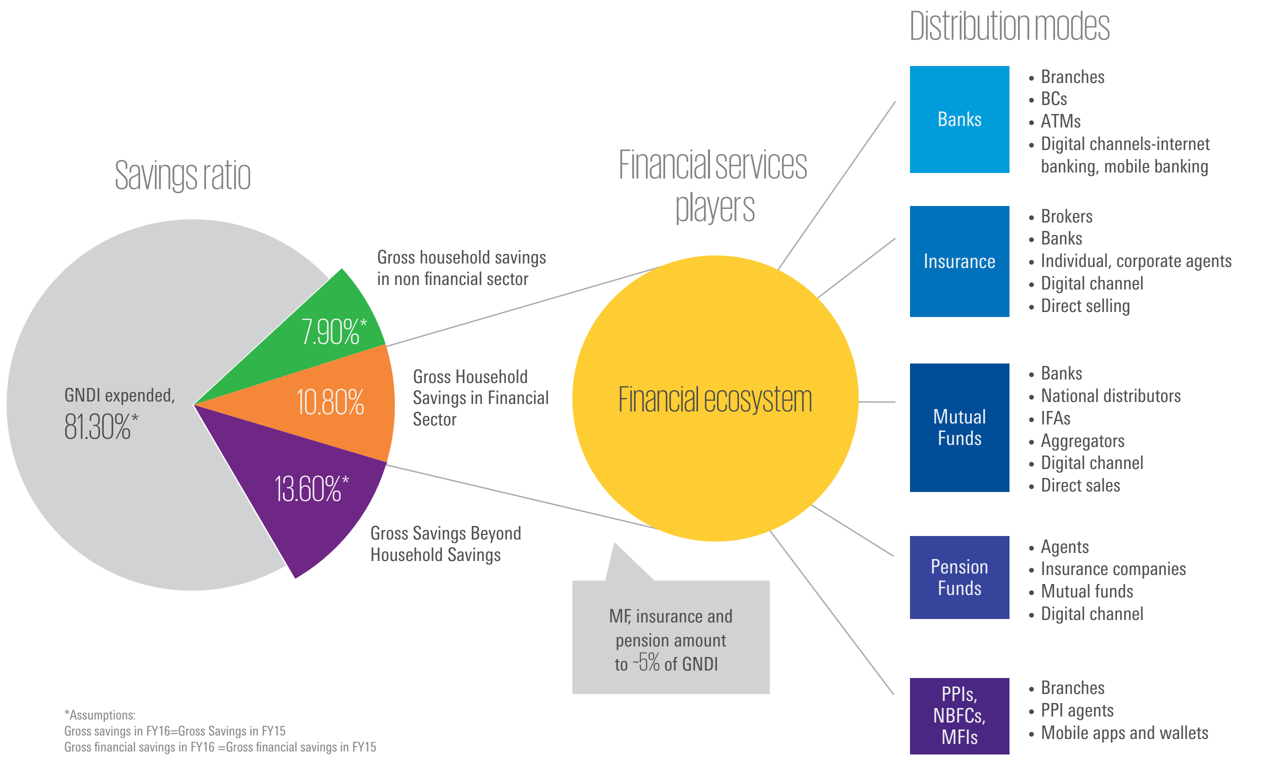
Management Consulting

KPMG in India

Financial distribution overview



The Indian economy is experiencing a rapid growth momentum fueled by strong government reforms and financial sector regulations. With this, there has been a shift in consumer spend from physical assets to financial assets. However, despite this shift, the share of investments in funds and insurance have not seen much traction. Due to the low risk nature, bank deposits are still the most preferred source of financial investments for an Indian household. The gross savings in financial services form a meagre part of the total savings in the economy. There is ample scope for expansion of financial savings. Let us have a look at the financial ecosystem in India.



Source: RBI annual report 2015-16, Reserve Bank of India, 2016; KPMG in India's analysis, 2016

Rising GDP, untapped household savings and dormant/ quiescent HNI wealth in B-15 cities offer new business potential to financial services companies. To tap the potential in hinterland and deepen reach in T-15 cities, financial services firms are focussing on better aligning their offerings with customer needs, creating investor awareness and resorting to innovative avenues to increase their distribution reach.

Distribution structure

The Indian financial services sector is undergoing a paradigm shift in structure with new entrants like small banks, payment banks and reinsurance players entering the arena. Regulators are constantly introducing decrees to strengthen the sector with investor protection norms and financial inclusion initiatives.

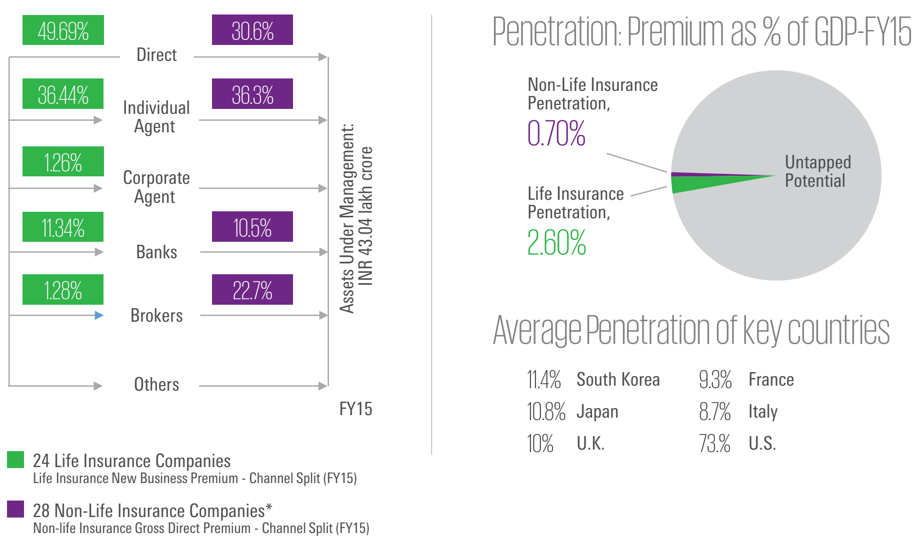
Besides the traditional distribution, players including in-house sales agents, banks, national distributors and IFAs, financial services firms, are resorting to digital and mobile channels to increase their investor connect.

In the following section we have captured a snapshot of the insurance, mutual fund and pension fund segments with insight into their distribution models.

Insurance landscape

Over the past decade, the insurance industry has undergone transformational changes. The industry has witnessed phases of rapid growth along with spans of moderate growth, intensifying competition with both life and general insurance segment[01]. Post liberalisation, the insurance industry has grown in size and volume of players. The industry size (in terms of total premium) has grown by 10.9 per cent from INR180,947 crore in 2007 to INR412,785 crore in 2015[02]. In terms of players, the participation has grown from six players in 2000 to 53 players in 2016. Ongoing regulatory changes have opened the Indian insurance sector to foreign players. Recent revision of the FDI cap to 49 per cent has encouraged large global players turn their heads towards India.

Insurance: Current Landscape (India)



Source: IRDAI annual report 2014-15, Insurance Regulatory and Development Authority, 2016; Indian non-life insurance industry-Year book 2014-15, General Insurance Council, 2016

Note: * Includes specialised insurance companies – ECGC and AIC.

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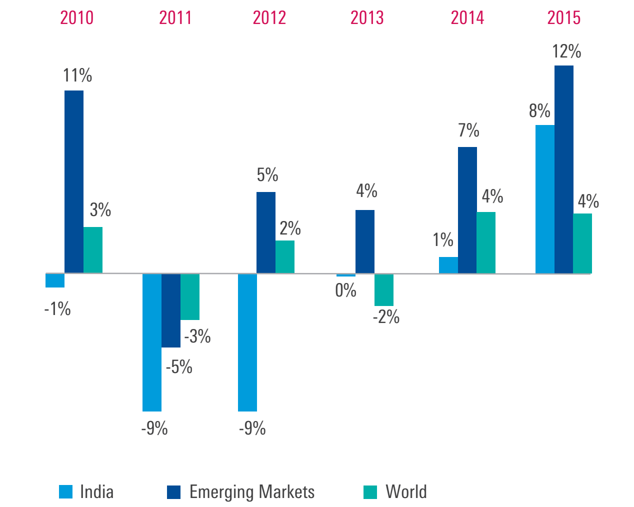
01. Insurance Industry-Road ahead, KPMG in India's analysis, 2013
02. IRDAI annual report 2014-15, Insurance Regulatory and Development Authority, 2016; KPMG in India's analysis, 2016

Some of the largest insurance companies in the world, have expressed a strategic view with reference to India being one of the top priority emerging markets. India is seen as a strategic location for investment due to proximity of the country to major countries in Asian economies. Availability of varied customer base and ability to diversify risk further attract investments in India.

Despite phenomenal growth in size of the insurance market, India lags in global ranking. According to Swiss Re global insurance study[03], India ranks twelfth in terms of premium volume.

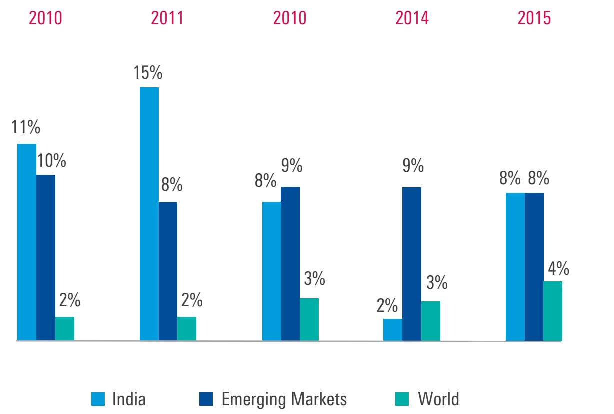
Life insurance premium growth rates* in India, emerging markets and the world



Note:* Growth rate in percent and is inflation adjusted.

Source: KPMG in India's analysis, 2016

Life insurance premium growth rates* in India, emerging markets and the world



Note:* Growth rate in percent and is inflation adjusted.

Source: http://www.swissre.com/media/news_releases/global_insurance_industry_grows_steadily_in_2015_amidst_moderate_economic_growth_but_outlook_is_mixed_sigma_report.html accessed on 04 November 2016; IRDAI annual reports 2010-2015, Insurance Regulatory and Development Authority, 2011-2016; KPMG in India's analysis, 2016

India is yet to traverse the path of insurance distribution through extensive use of digital channels. Emergence of aggregators, implementing mandatory e-insurance for ease of access, investor empowerment and simplification of KYC procedures, is just the beginning of the change that needs to be incurred to tap the underpenetrated population of India.

To address the challenge of penetration, insurers need to focus on:

- Redesigning the channel strategy
- Financial awareness of the customer and channel partners

Further, the Government of India has launched various initiatives like Aadhaar by UIDAI, digital signature, digital locker, tab based selling to bring the rural masses under the umbrella of financial coverage. Initiatives such as Pradhan Mantri Jeevan Jyoti Bima Yojana, Rashtriya Swasthya Bima Yojana (RSBY),Universal Health Insurance Scheme (UHIS), and Pradhan Mantri Suraksha Bima Yojana (PMSBY) which have not only broadened insurance penetration in the country, but have also enhanced financial literacy among the lower income groups in India.

03. http://www.swissre.com/media/news_releases/global_insurance_industry_grows_steadily_in_2015_amidst_moderate_economic_growth_but_outlook_is_mixed_sigma_report.html accessed on 10 November 2016

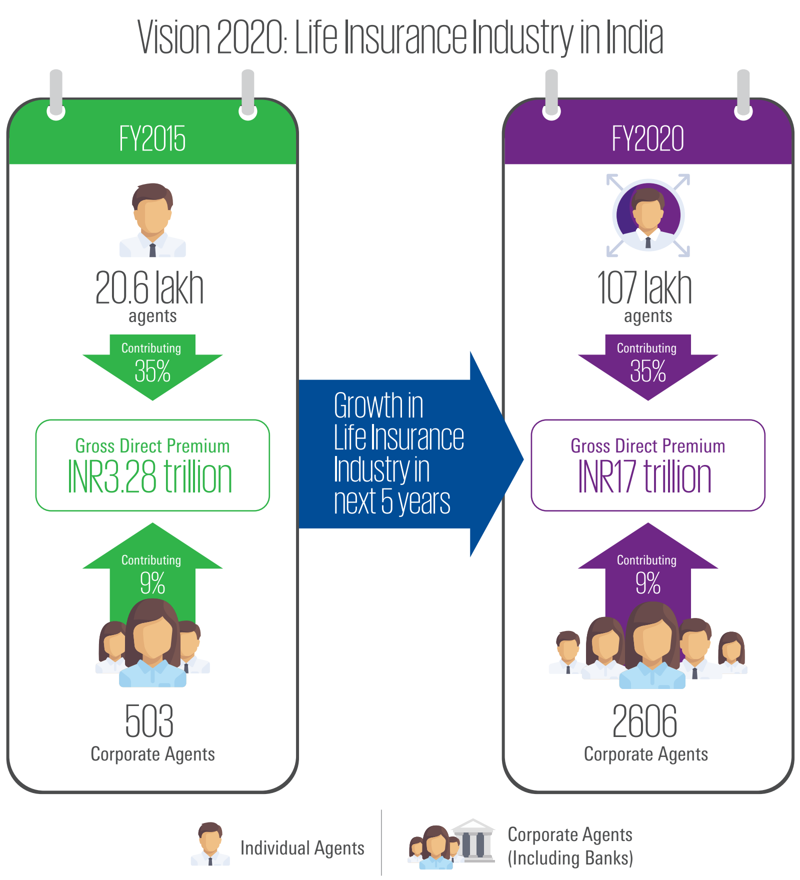
Future outlook

With extraordinary progress in medical sciences and a steady rise in standard of living, a longer living population with higher life expectancy implies huge potential for the future of the insurance industry in India. In spite of being the second most populous country in the world, India still accounts for a meagre 1.6 per cent[04] of the total world's premium, pointing towards the untapped potential which lies in this market.

According to industry experts and market analysts, the insurance industry in India is headed towards a destination by the end of this decade, which will be the culmination of record growth in this industry in terms of market size, penetration rates, new business income and similar growth statistics. The scenario is expected to head towards this vision, where the total premium of the overall insurance industry is projected to touch the INR26 trillion mark (Life and Non-Life combined). This transition towards Vision 2020 has to be supported by an equally significant rise in the number of intermediaries involved in the distribution of insurance, mainly individual agents and corporate agencies (including banks).

If we take a closer look at the life insurance industry in the same growth scenario with FY 15 numbers as taken from IRDAI annual report 2014-2015, we can expect the current Gross Direct Premium[05] of INR328,101 crore as reported in FY 15 to touch INR1,700,000 crore by FY 20. Out of this INR1,700,000 crore, individual agents are expected to contribute INR595,000 crore while corporate agents are likely to contribute INR153,000 crore04. Given below is a pictorial representation of Vision 2020 for the life insurance industry and the accompanying projected growth in the number of distributors:

Projected growth in the life insurance industry in the next five years



Source: IRDAI annual report 2014-15, Insurance Regulatory and Development Authority, 2016; KPMG in India's analysis, 2016

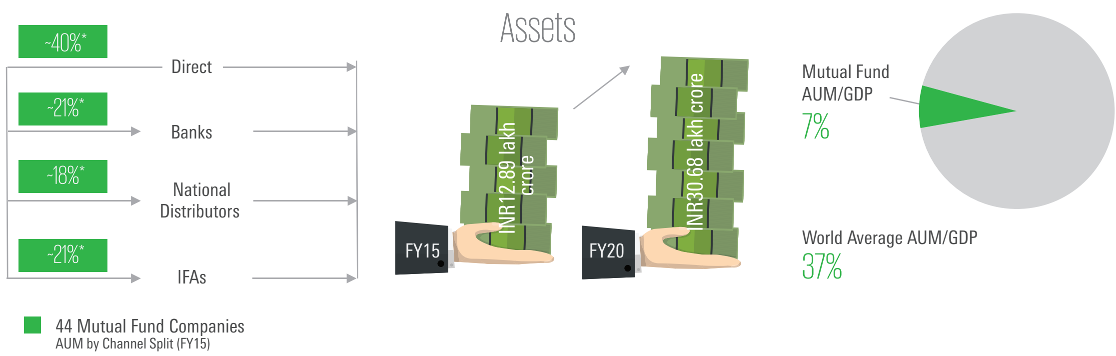
04. http://www.swissre.com/media/news_releases/global_insurance_industry_grows_steadily_in_2015_amidst_moderate_economic_growth_but_outlook_is_mixed_sigma_report.html accessed on 4 November 2016; KPMG in India's analysis, 2016

05. IRDAI annual report 2014-15, Insurance Regulatory and Development Authority, 2016

Mutual funds landscape

Since liberalisation, more than 40 Asset Management Companies (AMCs) have set up their operations and presently there are 44 AMCs operating in India. Mutual fund has gained massive popularity as an investment vehicle which is reflected in the growth of assets under management.

Mutual Fund: Current Landscape



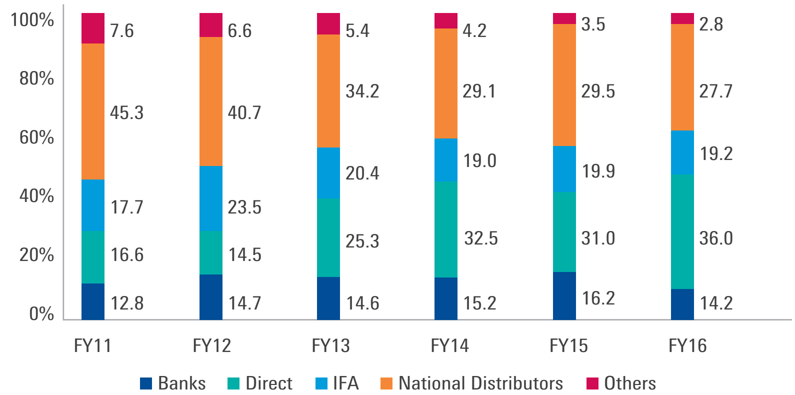
Source: http://economictimes.indiatimes.com/mf/mf-news/india-has-among-the-lowest-mf-gdp-ratios-globally-report/articleshow/54440169.cms accessed on 04 November 2016; https://www.amfiindia.com/research-information/aum-data/average-aum accessed on 05 November 2016; *Data received from Karvy Computershare Pvt. Ltd, November 2016 (Note: Data is limited to Karvy serviced funds)

Note: FY20 number extrapolated basis 19 per cent CAGR FY 2015-20

The Assets Under Management (AUM) in the mutual fund industry have seen a significant growth in the last few years. The growth is likely to continue over the next four to five years. However, despite this growth, mutual fund penetration in India has been low as compared to other global economies.

Mutual fund distribution is traditionally dominated by third party channels. The chart below depicts the split of industry AUM by distribution channels and how it has changed over the last year.

Distributor-wise AUM share



Source: Data received from Karvy Computershare Pvt. Ltd, November 2016 (Note: Data is limited to Karvy serviced funds)

In the past 10 years IFAs have increased their share in mutual fund distribution with unbiased professional advice, customised support and service. Introduction of cap on upfront commission and removal of service tax exemption status have led to lower margins. This has resulted in a lower active IFA base who find it difficult to be in business due to high cost and small portfolio base. However, with only 3 per cent[06] of population in India investing in mutual funds currently, there are tremendous opportunities ahead for IFAs.

Banks remain a key category due to their ability to leverage the existing distribution structure. Large bank distributors are supported by 200-300 RMs to source their AUM sales. Additionally banks are initiating digital platforms to enable and promote online sales.

National and regional distributors constitute the oldest channels for selling mutual funds, while quasi-captive distributors and direct selling are evolving as preferred channels.[07]

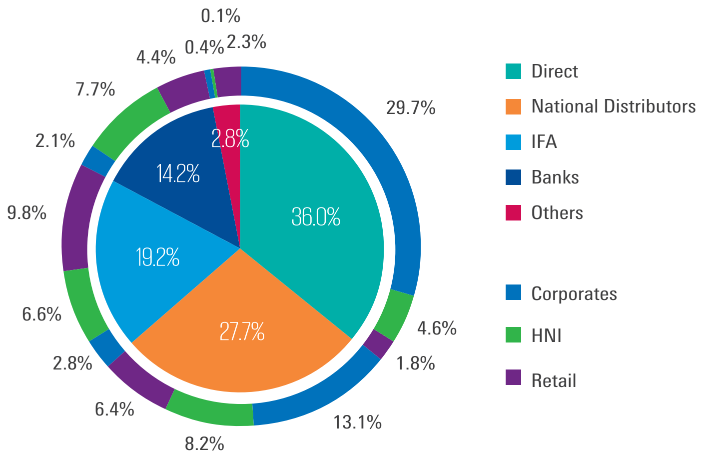
Online/digital platform has shown a remarkable increase in share of the overall market over the last few years. This trend is likely to continue and expected to become the key to unlock the growth potential in underpenetrated regions and emerging internet-savvy customer segment.[08] The use of mobile & digital mediums in asset management industry till now has been limited to source of market & company data, financial news and investor education, however the widespread adaptation of mobile technology is now seeing the transaction through mobile channel.

06. Data received from Karvy Computershare Pvt. Ltd, November 2016; KPMG in India's analysis, 2016 (Note: Data is limited to Karvy serviced funds)

07. KPMG in India's analysis, 2016

08. Indian Mutual Fund Industry – KPMG Report 2014, KPMG in India's analysis, 2014

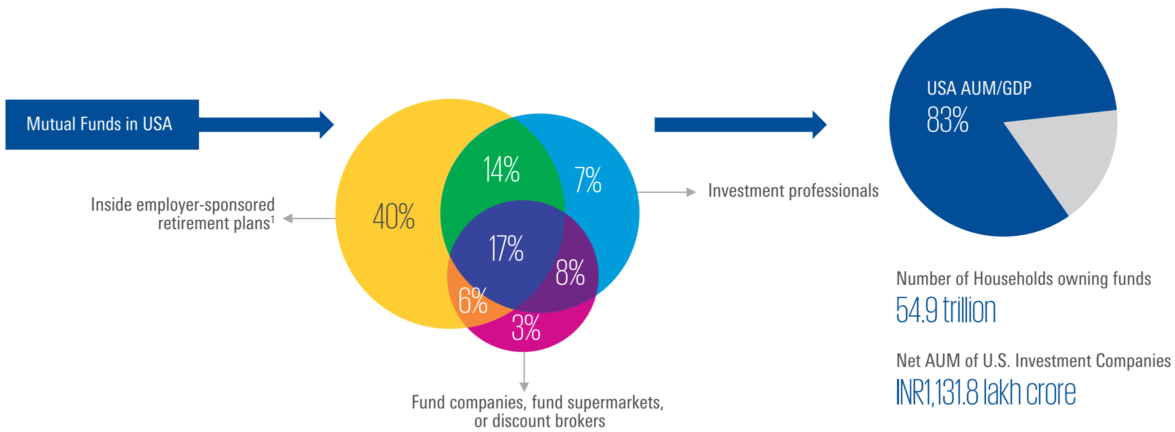
Investor type wise AUM across channels - FY16



Source: Data received from Karvy Computershare Pvt. Ltd, November 2016 (Note: Data is limited to Karvy serviced funds)

U.S. being one of the countries with high mutual fund penetration has traditionally shown affinity for fund distribution through retirement channels and fund supermarkets. Distribution via technology-driven interface is getting popular and may soon translate into the largest share of U.S. personal spending going onto a financial services sector through this channel.

Percentage of U.S. households owning mutual funds, mid-2015



Source: Investment Company Fact Book, Investment Company Institute, 2016; KPMG in India's analysis, 2016

Note: [1]Employer-sponsored retirement plans include DC Plans (such as 401(k), 403(b), or 457 plans) and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs)

In the mid of 2015, about 43 per cent of U.S. households were invested in mutual funds and constituted AUM that made up for 83 per cent of the U.S. GDP. This extent of penetration is on the back of awareness, and ease of access through various touch points available to the investors. The three principal sources include:

- Investment professionals: These include brokers, investment advisors, independent financial planners, insurance agents, banks and savings institutions and accountants.
- Employer-sponsored retirement plans: This channel constitutes the largest portion of the AUM where investors choose from a menu of investment product options. Employers rely upon third parties to administer the defined contribution plans and provide employees with investment options.
- Fund supermarkets (online aggregators), Asset Management Companies: The supermarket channel constitutes of discount brokers that offer mutual funds from a large number of fund sponsors on an online platform. Without having to pay any transaction fees.

In the U.S. most households held mutual funds through multiple sources. About 6 per cent of the households held them both from fund companies directly, fund supermarkets and inside employer-sponsored retirement plans; about 14 per cent households invested in mutual funds from both inside employer-sponsored retirement plans and through investment professionals; and 8 per cent held mutual funds through directly mutual fund companies and unified platforms and investment professionals . About 17 per cent households owned mutual funds through all the three sources.

Distribution via a technology-driven interface is getting popular and may soon translate into the largest share of U.S. personal spending going onto a financial services sector though this channel.

The need of the hour is , an effective distribution strategy coupled with a winning game plan and entwined with a digital strategy. Leading firms have been contemplating multiple options to enrich their clients' mobile experience. Digital teams with asset managers need to redraw their sales and marketing strategies and imbibe 'client first' with 'mobile first' in their working when developing websites and rolling out new technology. Soon e-commerce platforms are likely to sell funds on their platforms. Following suit, digital wallets are also awaiting RBI nod to conduct mutual fund transactions. These steps are a consequence of 'Digital India' that is inspiring regulators to encourage exclusive use of online medium for a cashless economy.

With the changing regulation around KYC norms and cost effective technology solutions, a shift is expected from process execution to more 'human' factors. Cost of operations can significantly come down if technology is used as an enabler in the distribution process. Customer service is expected to take centre stage for an organisation, which has been the core competency of IFAs who are excellent at face to face relationships and community based model.

To increase mutual fund investments from potential investors (in B-15 cities) there is a need to tailor strategies as per the existing demographics and conditions in the cities. Imperatively, more awareness campaigns aligned to the demographics are essential to drive investor propensity towards mutual funds.

In the recent past, Securities Exchange Board of India (SEBI) announced a slew of measures to improve penetration of mutual fund (MF) products and investor protection.These measures relate to minimum asset requirement, simplification of processes pertaining to offshore fund management, strict reporting regulations, mutual fund distribution eligibility approval for NBFCs, introduction of new distributor segment, capping commissions, etc.

Given the recent directives from regulator and industry association to cap the upfront commission to 1 per cent, introduction of claw back clause for distributors, we expect commissions to be aligned to growth of the industry. The industry too is slowly moving to an incentive model that links the incentives of agents and relationship managers to net sales instead of gross sales to improve longevity of investment portfolios.

Future outlook

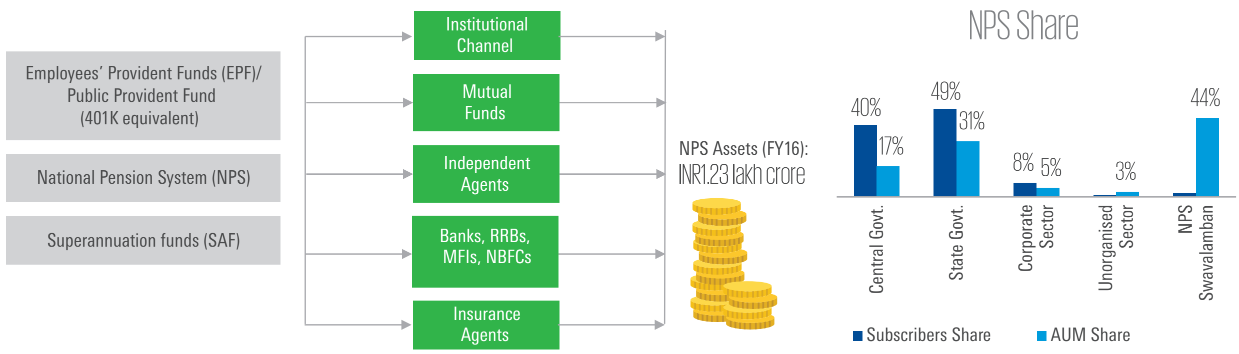
To meet the financial aspirations of the rising middle class, mutual fund industry needs to expand at a rapid pace. This is likely to be supported by distribution channels, which are estimated to grow at around the same pace.

The channel mix is expected to remain similar with significant sales in the retail segment coming through third party distributor channels. However, to achieve the expected AUM growth rate, a three to five fold increase in number of distributors is a critical success factor since the industry is challenged with low active distributor base. Direct sale through online channels is expected to rise due to rising technology savviness of young customers and increasing comfort of customers in purchasing products online. Higher customer engagements through websites and social media and purchases through online and mobile channel is expected in the medium to long-term time frame. The corporate and institutional AUM is expected to grow on the back of increased economic activity in the country. The direct/institutional sales team can continue to service this client base. Distributors embracing technology and sub-broker model have greater chances to expand their reach beyond top 15 cities and tap the growth opportunities.

Pension landscape

The salaried population in India is presently given three options for securing their retirement benefits - mandatory, quasi-mandatory and voluntary plans. Over the past decade, significant changes have occurred in the pension landscape in India.

Pension fund: Current landscape



Source: http://npstrust.org.in/index.php/finstat/aumsubs accessed on 3 November 2016; KPMG in India's analysis, 2016.

Note: The NPS share is as on October 2016 reported by National pension trust.

For securing retirement benefits of the employment workforce, the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 (EPF Act) was introduced which is the predominant social security legislation in India. Three schemes operate under the EPF Act namely Employees' Provident Fund Scheme (EPFS), Employees' Pension Scheme (EPS) and Employees' Deposit Linked Insurance Scheme (EDLIS).[09]

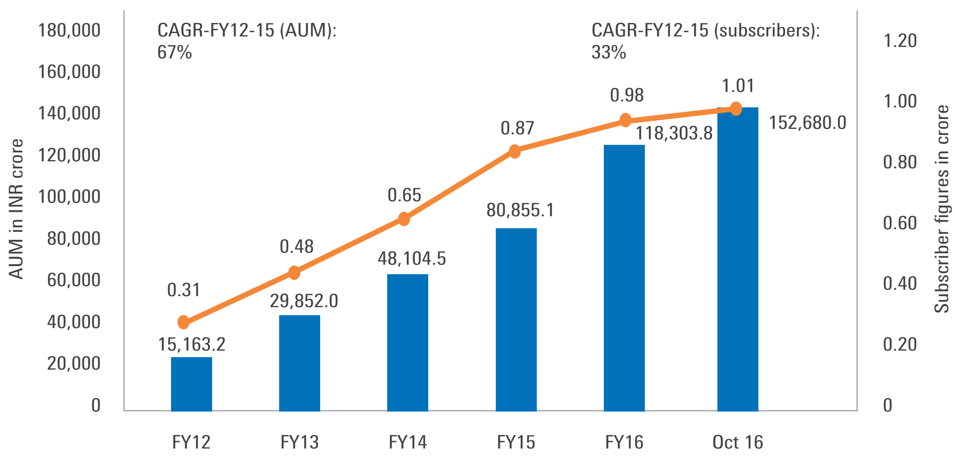
NPS is an initiative from the Government of India that allows individuals to make investment decisions for their future and encourages systematic savings to provide adequate retirement benefits. Employee's working under corporate establishments have an option to avail NPS via their employers. AUM and subscribers under NPS have grown exponentially since FY2012. However, the growth of subscribers is lower in comparison to AUM growth. According to National Pension System Trust, as of October 2016, AUM stands at INR152,679.98 crore[10] with 1.01 crore[10] subscribers. Majority of the subscribers under NPS are from NPS Swavalamban (NPS Lite) summing up to 44.5 lakh[10], however, in terms of AUM, a major share is taken by State Government & Central Government schemes totalling INR75,244.7 crore[10] and INR60,353.5 crore[10] respectively.

In May 2015, the Government of India launched Atal Pension Yojana, a pension scheme similar to NPS lite that is targeted at the unorganised sector. As on October 2016, this scheme has total AUM of INR1,255.04 crore[10] with 36.55 lakh[10] subscribers.

09. Employee Pensions in India-Current practices, challenges and prospects, KPMG & FICCI, December 2015

10. http://npstrust.org.in/index.php/finstat/aumsubs accessed on 3 November 2016; KPMG in India's analysis, 2016

AUM and subscriber growth of NPS



Source: http://npstrust.org.in/index.php/finstat/aumsubs accessed on 3 November 2016

Pension fund in India is still in nascent stages of maturity. Some of the key factors impacting the growth of employee pensions in India are:

- Litigations on contribution base
- Lack of portability of accumulated corpus
- Lack of mandatory participation in pension plans
- Disparity for self-employed
- Problems in voluntary coverage
- Pre-retirement withdrawals.

Three channels are primarily used for distribution of pension products:

a. **Direct aggregator channel:** Organisations such as banks, rural banks, MFIs and NGO form director aggregator channel partners where they promote a pension product in addition to their traditional products to the customers.[11]

b. **Promoter channel:** Here the channel partners associate with customer-facing partner companies to drive customers towards subscription to pension schemes. (e.g. LIC is promoting pension products via its corporate and micro-insurance channel partners)[11]

c. **Independent agent channel:** Here aggregator channel partners are responsible for engaging independent agents to reach the last mile rural customers and make the pension schemes accessible to potential customers. (e.g. LIC has appointed such agents in association with Confederation of NGOs in Rural India)[11].

Pension assets are extensively covered under EPF and NPS and are often mandatory. To provide a wider choice of savings for retirement, private insurers and mutual fund companies offer pension plans and annuity products.

Pension via insurance route

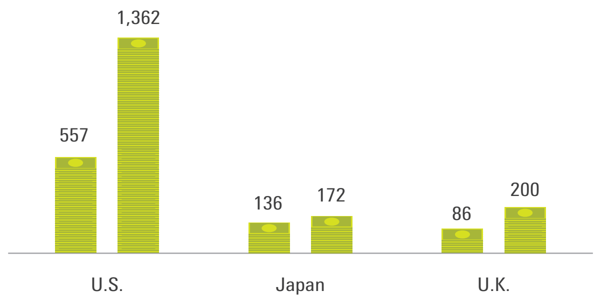
The insurance sector plays an important role in provision of pensions. Private insurers facilitate accumulation of regular savings of customers for retirement and convert the lump sum amount to a fixed income or pension post retirement. The average assets under management (AUM) in pension and annuity fund (including group fund) forms nearly 9.4 per cent[12] of total AUM managed by life insurers (i.e: AUM under Life fund, Pension/annuity/group fund, ULIP). In terms of investments, life insurers invest nearly 17 per cent[12] of the investments in pension and annuity funds which has increased marginally over the past year.

Pension via mutual fund route

Mutual funds are a medium for long-term financial investments or savings. However, for pension fund, only seven[13] mutual fund companies or AMCs are allowed to launch pension funds. The retirement benefit pension funds are part of the hybrid(dual) category offering investment options in both debt and equity schemes. However, investors exposed to equity schemes have to face the challenge of significant exit load on pre-withdrawals and taxes on returns. This makes such schemes unappealing for the investors. A majority of these entities invest approximately 40 per cent of the pension assets in equities and rest in debt[14]. Investors may choose to invest in systematic investment plan (SIP) other than investing a lump sum amount.

India is at the cusp of growth. Learnings from successful global models in the pension arena might help bring the desired penetration in the market. According to Global Pension and Assets Study 2016, the largest pension markets at the end of 2015 were the U.S., U.K. and Japan which jointly formed nearly 78 per cent of the total pension assets of 19 major markets[15]. According to the study, the U.S. was seen to be the largest market in terms of pension assets.[15]

Global Pension Assets (INR lakh crore)



Source: Global Pension Assets Study 2016, Willis Towers Watson, 2016

The growth in pension assets in USA are driven by

- A shift to defined contribution (DC) plans from Defined Benefit Plans
- Government-incentivised or government-mandated shift to individual retirement plans
- Unlike EPF, 401K plan in the U.S. offers a variety of investment vehicles from which one may choose
- Pension growth on the back of growing mutual funds market.

11. Securing the Silent-III, Securing Old Age: The Indian Story of Micro Pension, Microsave, 2013
12. IRDAI annual reports 2010-2015, Insurance Regulatory and Development Authority, 2011-2016; KPMG in India's analysis, 2016
13. National Pension System Trust annual report 2015-16, National Pension System Trust, 2016
14. http://www.business-standard.com/article/pf/what-are-mutual-fund-pension-plans-113111800135_1.html accessed on 18 November 2013
15. Global Pension Assets Study 2016, Willis Towers Watson, 2016

Given below in the table represent characteristics of major pension systems across major pension markets

Country	Canada	United States	Netherlands	United Kingdom	Australia	Japan
Retirement Age	Eligibility for unreduced state pension: age 65 Drawdown of personal registered retirement savings required by age 71	Varied but generally age 62-65	Age 65 (67 in 2021)	Men: age 65 Women: age 60 Rising to age 68 for both by 2046	State old age pension: age 65 rising to 67 Can access personal superannuation: age 55 (rising to 60) and retired	Gradually rising from age 60 to 65 in 2025 for men and 2030 for Women
State pension system type	Defined Benefit (DB)	Benefits paid based on total amounts collected. The more paid in, the less in percentage terms is paid out.	DB	DB	State old age DB pension is funded from consolidated government revenue	DB
State pension level (per year)	Up to INR9.59 lakh	Upto INR10.09 lakh and INR16.46 lakh for married couple	INR6.15 lakh to 11.26 lakh depending on marital status	Maximum of INR7.72 lakh Current actual average INR5.44 lakh	Single old age pensioner: INR10.53 lakh Couple old age pensioners: INR15.87 lakh	INR17.80 lakh per employee (eligible for 1st and 2nd pillar)
State benefit type	Flat rate and earnings related, indexed annually to increases in consumer price Index	Flat rate adjusted for inflation increases	Flat rate	Flat rate	Maximum flat rate that reduces based on means testing	Flat rate and earnings related
Private pensions system	Voluntary, occupational and individual	Voluntary, occupational and individual	Mandatory, occupational	Mandatory for employer, Voluntary for employees	Since 1992 compulsory superannuation – DC at 9.5%. Additional salary sacrifice available. Additional non-concessional contribution INR84.11 lakh	Voluntary occupational
Average private pension level	Very differentiated	Average DC account balance INR96.46 lakh Average DB Funding – 85% (top 100 Corporate) Government – 71%	Very differentiated	Scheme INR10.39 lakh Personal INR5.04 lakh	New DC plan members can take lump sum or income stream based on account balance at retirement	Very differentiated
Entitlement to state pension	Old age security: age 65 and minimum 10 years residency after age 18; Canada pension plan: age 60	After age 62 with 10 years while earning at least INR3.12 lakh per year	50 qualifying years of national insurance contribution (proportionally reduced if less than 50)	35 qualifying years of national insurance contribution (proportionally reduced if less than 35)	Age 65 and resident physically present in Australia. Means tested based on income and assets	10 qualifying years of national pension contribution

Source: Global Pensions-Meeting the global challenge for pension funds, KPMG International, March 2016

The future of pension plans

India has been able to improve the quality of life of its citizens over the past decade and that is pretty much evident by the rise in life expectancy. As per the WHO World Statistics Report 2016, life expectancy at birth was 68.3 years in India in 2015, up from 58 years in 1990.[16] With growth comes a rise in inflation, necessitating a rise in savings levels, else it means that the investor is losing money. This coupled with rising life expectancy and the government incentivising NPS by means of any customer contributing voluntarily towards the scheme, is liable to get an additional benefit of INR50,000 under Section 80CCD (1B) which would be over and above the ceiling limit of INR1,50,000 as prescribed under Section 80 CCE which can develop the pension market for citizens of India. Henceforth, we need to build a workforce of zillion distributors to help NPS penetrate to the masses.

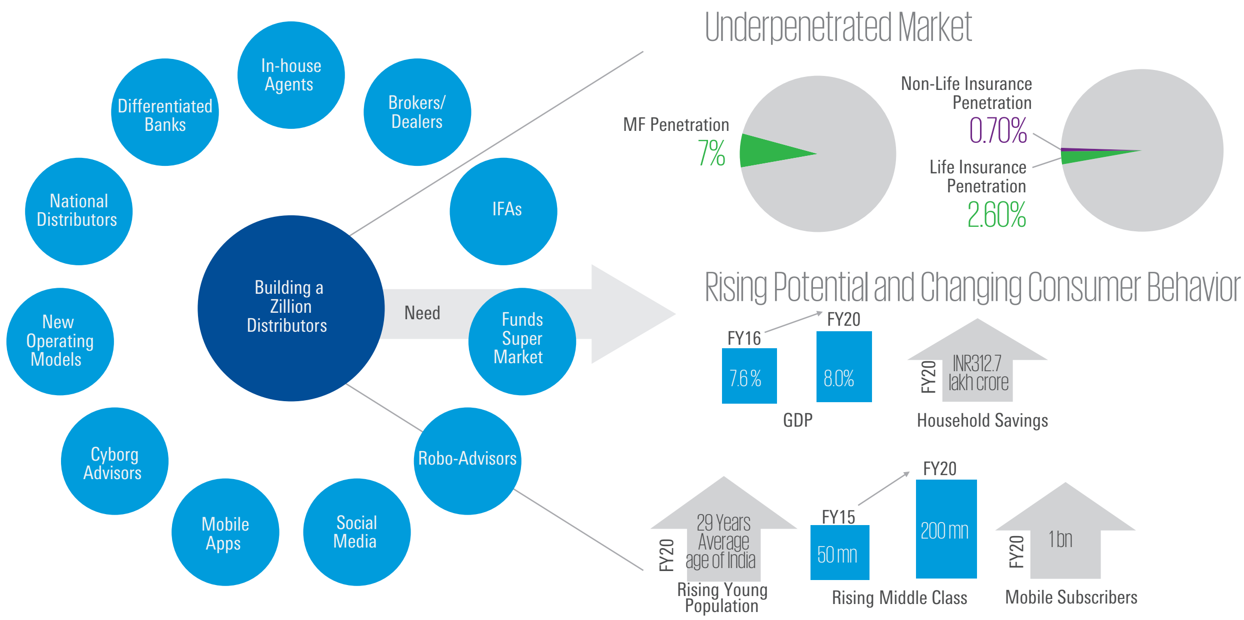
16. http://www.firstpost.com/india/life-expectancy-in-india-on-the-rise-but-quality-health-care-services-inadequate-2790442.html accessed on 10 November 2016

Building a zillion distributors

India has grown at a fast pace in the last couple of decades aided by liberalisation and other policy reforms by the government. The financial services sector has also grown in tandem with the economy. With increased financial inclusion and having savings rates on the higher side across the world, India today has significant potential to create wealth by channelising savings to bank deposits, insurance products and investments in mutual funds.

With Indian GDP forecasted to grow at 8 per cent till 2020 coupled with rising household savings and expanding middle class population there are ample opportunities for the penetration of financial products in the market. A rise in the young Indian population by FY20 to the average age of 29 years makes it imperative to have a strong workforce of financial distributors to tap the growth potential. Building a chain of zillion distributors is not an option anymore but a need for the financial services firms to tap the underlying business potential in the country.

Building a zillion distributors – need and scope



Source: IRDAI annual report 2013-14, 2014-15, Insurance Regulatory and Development Authority, 2015 and 2016; http://www.businesstoday.in/sectors/telecom/india-to-have-almost-1-billion-mobile-subscribers-by-2020/story/239057.html accessed on 7 November 2016; India's Top Banks: Banking Awards 2016 Brochure, Dun and Bradstreet, 2016; India's Potential Output Revisited, Reserve Bank of India, April 2016; http://www.forbes.com/sites/edfuller/2015/09/10/india-asias-next-economic-dynamo/#24af47943ae6 accessed on 4 November 2016; http://indianexpress.com/article/opinion/columns/india-population-retirement-age-3730002/ accessed on 5 November 2016; Indian Mutual Fund Industry-The Road Ahead, The Associated Chambers of Commerce and Industry of India, 2015

Despite being part of the financial markets for over two decades now, mutual funds have not been able to grab a significant portion of the investment pie in India. This is due to various factors like perceived risks in the minds of investors, lack of adequate mutual fund distribution channels across cities and lack of awareness about mutual funds as a tool for financial planning. A lion's share of investments in mutual funds come from the top 15 cities of India; AMCs have not been able to capitalise savings and wealth to that extent in the cities beyond the top 15. In 2014, there are 946 branches[01] in B-15 cities out of a total of 1,505 branches[01] across the country, however only 23 per cent[02] of the total individual investor share of AUM emanates from these cities.

On similar lines, there has been a disparity in terms of insurance penetration between urban and rural regions. Rural population has relatively lower access to information and lack of awareness of insurance products, rendering them to be the 'un-insured' class of the population. The need of the hour is to increase their awareness of the insurance products and also the need for insurance. There should be personalised touch points for imparting this education and thus requires a high touch service model to be followed.

As we believe in building a zillion distributor workforce to tap the underpenetrated financial distribution markets in India, we will dig deeper into the challenges related to expanding the financial distributor workforce.

Operational as well as regulatory challenges and empowerment of distributors

Mutual funds

Traditionally the high cost third-party distributor incentive structure has pushed AMCs to choose between aggressive growth and profits. Recent years have witnessed smaller players without deep pockets exiting the market. Further, the industry has also witnessed a spate in foreign player exits. Unable to understand the Indian market dynamics with a low priority on retail focussed distribution, foreign players have suffered under-penetration and break even concerns. These dynamics are expected to unite the industry.

On the other hand, several large fund houses with support of large banks or financial institutions have been able to understand the market better and expand footprint. Effective distribution network and retail focus has also resulted in new entrants to break even in just a few years of operations.

Following are some of the key operational challenges that plague the mutual fund industry that restricts penetration:

a. **Low levels of customer awareness:** The lack of financial literacy in the country plagues the market of mutual funds, similar to that of any other financial product. A large portion of retail investors lack knowledge of risk-return, asset allocation and portfolio diversification concepts which directly impacts the choice of investment products away from mutual funds. Especially in the B-15 cities, customers still prefer to invest in gold and property which is regarded as a stable option.

b. **Inconsistency of focus between T-15 and B-15 locations:** The distribution structure of many AMCs focus primarily on the Top 15-20 cities, to avoid the high cost needed to penetrate into more remote locations. Although SEBI has made efforts to incentivise distribution in B-15 cities by offering higher monetary incentives, IFAs/advisors in B-15 locations can expect to earn a commission pay out of roughly one-fourth of what they earn in their T-15 counterparts.

c. **Distribution of mutual funds still not a priority for public sector networks:** Although PSUs and postal networks have a widespread grid to extend penetration to Tier II and III cities, several of them have currently partnered up with only four to five AMCs, thus leaving a huge base of AMCs still disconnected from the last mile reach. As per AMFI's October 16 data[03], contribution of B-15 cities in the total AUM of mutual funds was 17 per cent as of September 2016, witnessing a growth of 33 per cent over the last one year (as compared to 28 per cent for the entire industry during the same time period).

d. **Lower distribution through PSU banks:** Mutual fund distribution by PSU banks has been historically very low, however leveraging the wide network of branches, distributors can increase their reach in Tier II and III cities. In order to reap greater benefits from this alliance, mutual funds/AMCs need to build robust infrastructure and support ecosystem to partner up with PSUs in the distribution of their products to the banks' customers.

01. http://www.livemint.com/Money/5lXtbcPMAD0abELG8ijurK/SBI-Mutual-Fund-opens-51-branches-across-India-in-a-single-d.html accessed on 4 November 2016

02. KPMG in India's analysis, 2016

03. T15 vs B15 Report, AMFI, October 2016

Following are some of the key regulatory compliance requirements which distributors need to follow that may inhibit mutual fund industry growth:

a. **Limited flexibility in fees and pricing structure:** Owing to a number of regulatory measures, the Indian mutual fund industry enjoys limited flexibility in deciding their management fees. Unlike its global counterparts where management fees are decided by a mix of factors such as investment objective of the fund, fund assets, fund performance, etc., in India it stays more or less fixed in the form of an entry load and additional fees as deemed fit by the AMC. A constant fee, irrespective of the quality of service and advice, coupled with rising expenses curtails profits for distributors.

b. **Amendment to the SEBI Investment Advisors Regulations, 2013:** The recent SEBI guidelines on IFAs proposes that the advisory function should be kept separate from distribution. This essentially translates down to the fact that distributors (also called agents or independent financial advisors) will not be able to give any advice to investors. Prior to these guidelines, earlier, they were allowed to offer advice 'incidental to the sales processes'. Now, in case distributors want to give advice, they will need to register themselves as investment advisors (RIA) within three years. In case, if they fail to make this transition, their function will be reduced to distribution and execution only.

c. **The 'commission disclosure' rule by SEBI** came into effect in October 2016 which entitles investors in mutual funds to be made aware of the exact amount of commission pay out in the half yearly consolidated account statement. Under the existing norms, this commission is almost concealed apart from being factored in into the scheme's total expense ratio and the exact amount is not explicitly mentioned anywhere. The regulator has also instructed fund houses to show in the scheme document, an illustration of the effect of expense ratio on the returns received by the investor. This would make the investor cognisant of how much he or she could gain by reducing the expense ratio.

Such disclosures are selective and provide information which is incomplete and not relevant, this can mislead the investor into making ineffective choices, which can be harmful to him/her, and detrimental to the growth of the industry. In addition, it may create a negative impact on retail investors and eventually hurt growth of the mutual fund industry.

Insurance

The insurance industry faces the challenge of difficult operating environment across traditional channels. Issues of miss-sell, fraudulent claims, lack of fundamental knowledge of channel partners, etc. are some of the common issues that are dominant in the industry.

Following are the operating challenges that impact insurance distribution and some key initiatives that could be adopted for empowerment of channel partners.

a. **Sale practices:** Insurance products are portrayed as an investment instrument rather than a measure for contingency planning which creates confusion and apprehension among investors. Despite availability of product information in all public disclosures, customers are not cognisant about the nature of the insurance product being sold to them. Often this creates a situation of miss-selling where multiple policies are sold to investors without their knowledge. Such incidents can impact the reputation of a company. Although the volume of complaints have spiked over the years, the resolution rate has also been growing. The complaint resolution rate in life insurance has increased from 86.41[04] per cent in FY2010 to approximately 97.82[05] per cent in FY2015 and in the non-life segment from 79.63[04] per cent in FY2010 to 96.59[05] per cent in FY2015.

b. **Financial literacy and awareness:** Indian investors restrict the investment choices largely in physical assets including gold and real estate. The state of financial awareness is further lower in the rural region. Modern technology such as branchless banking/tab banking, ATMs and debit cards, have penetrated the Tier III and IV markets. However, the limited volume and small size of transactions have a cascading impact on operating cost. A financial education campaign for investors may prove to be an expensive proposition for banks and in this regard assistance from insurance distributors is much needed.

c. **High administrative costs:** Due to ever changing regulations and guidelines by the regulatory authorities in India, insurers have to consistently reconstruct their portfolios which impacts administration costs in terms of product re-pricing, approvals and revision of compliance systems and re-training expense of sales staff. In past one year, the operating expense ratio of life insurers have marginally declined from 11.92[05] in FY2014 to 11.23[05] per cent in FY2015. Similarly, the first year commission expense ratio has declined to 8.47 in FY2015 from 9.84[05] per cent in FY2014. Despite a declining trend there is room for improvement as compared to developed markets where the expense ratio are lower. Tier III and Tier IV regions have unbalanced penetration of emerging technology and communication infrastructure along with financial services. In such a scenario a branch led model is a preferred medium to improve profitability and reduce administrative cost. However, the high set-up costs and staff training expenses make it unviable for many players and offsets its benefits.

04. IRDAI annual report, 2009-10, Insurance Regulatory and Development Authority, 2010
05. IRDAI annual report 2014-15, Insurance Regulatory and Development Authority, 2016

d. **Flexible insurance products:** There is a need for custom-made products for the lower income strata whose savings rate is very low along with flexible premium terms. This is a challenge especially for private insurers who already face thin profit margins. Considering high mortality risk is dominant across this section of the society, providing a cost-effective insurance product is far from reality. Even the government's initiatives of providing universal insurance coverage have been questioned in regard to risk coverage at a meagre premium amount.

Insurers would have to face the daunting task of bearing sizeable risk despite the subsidy component and this could result in fluctuating premiums in the future if policy lapses increase with a simultaneous decline in enrolments.

e. **Distributor empowerment:** Technology is a key driver for distributors in financial inclusion. In the present scenario where investors are becoming increasingly tech savvy with technology integration, evolving initiatives around mobile banking and trading, tablet-based investments have steered the growth in financial inclusion. Even the insurance sector has positively been impacted by this trend. Whether technological platforms are created in-house or via third party platforms, overall efficiency and decline in costs can be attained across the insurance channel through the adoption of better technological processes.

The increased focus on investor awareness by regulatory bodies and financial products put forward by product manufacturers and distributors has made customers more aware about the financial products available and their investment needs. This coupled with rising income levels has necessitated that the distribution players play the role of a trusted partner and enabler more than an advisor.

The entry of new players along with technology disruptors has led to the use of sophisticated tools to provide low cost services which can replace traditional wealth managers. In order to be competent enough in the changing industry dynamics, it becomes even more important for existing players to embrace these innovations and provide higher value services to mass affluent and retail customers. These traditional players can further build their customer base they have developed over a period of time with such proposition and solve two key issues of the industry, lack of trust and high cost of operation. In fact, with use of technology relationship managers can now service more number of customers with time at his/her disposal.

Product manufacturers' agenda

With challenges subsiding gradually, AMCs need to have a set agenda to overcome these for a consistent growth. They must look beyond the traditional distribution channels and explore digital channels to complement their existing distribution strategy and drive up the mutual fund penetration. The B-15 population is quite tech savvy – Tier II and Tier III cities have their fair share in e-commerce growth in India. A leading American e-commerce company's sales analysis in Indian revealed that amongst all transactions by Indians between January 2013 and June 2014, Tier II and Tier III cities are driving the e-commerce demand in India.[06]

Mutual funds

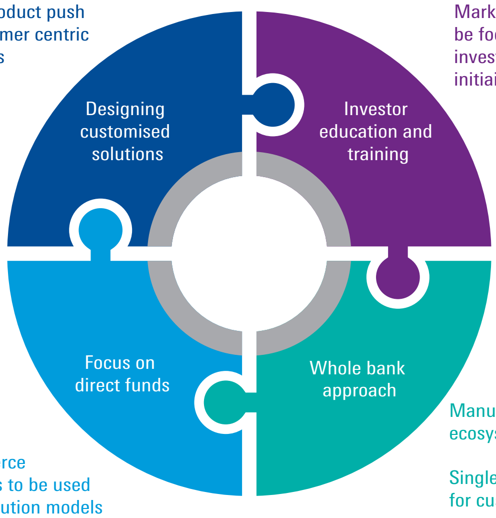
Mutual fund product manufacturers need to be aligned with the latest trends in customer needs and their buying behavior. This coupled with a collaborative efforts of manufacturer and distributor will assist product manufacturers in scripting a success story.

a. **Designing customised solutions:** Manufacturers have been getting cues from distributors to develop customised solutions to suit needs of individual/specific categories of customers rather than continuing with the same type of absolute-return products which have not impressed investors in the last decade. Instead of a product push approach which works in a supply determined marketplace, asset management companies need to tweak their offerings to suit the needs of the financially literate and technologically savvy investor who has started to look beyond the pre-defined gamut of simple generic products.

AMCs could also look at products which could be a combination of funds which could be in demand for people with multiple financial goals. On the overall, the objective of these new customised funds could be mapping themselves to one or more specific financial goals of the potential investor and get positioned as a long-term means for fulfilling these goals.

The manufacturers are working towards including more thematic funds in their portfolio which can be tailor-made for very specific target groups with particular needs, such as a child plan for new parents, growth maximiser high return funds for young professionals with high disposable income, retirement plans for the mid 30 early 50 category.

06. Census 2014 – India under a lens, eBay India, 2015



b. **Increased investor education and training:** One of the most critical challenges faced by AMCs today is the lack of financial awareness regarding mutual funds as a long-term-wealth creation option. Thus mitigating this gap in the investors' minds calls for some immediate action by the manufacturers. Low level of awareness and financial literacy are among the biggest challenges faced by AMCs in attracting new investments. To overcome this, the marketing initiatives need to be built around increasing investor awareness and communicating in simpler jargon-free language. Although SEBI has mandated that AMCs must invest a portion of their revenue to cover for structured Investor Awareness Programmes there is still a lot of progress needed.

   Along with building better client relationships, companies have to look at incurring some heavy expenses on training IFAs/advisors on the basics of mutual funds, fund performance, risk-return rules, etc., who can in turn educate the investor and also create a distinct brand identity of the respective AMCs in the customers' minds.

c. **Focus on direct funds:** As the name suggests, direct plans/funds which make up roughly 36 per cent of the total AUM in the Indian Mutual Fund industry, allow investors to directly invest in funds of an AMC without the involvement of any financial intermediary in the form of IFAs/advisors. Direct funds are typically chosen by those investors who have less time at disposal and sound financial knowledge. Further, direct funds are more popular in the debt segment compared to equity which has taken off much more in the advisor-led model. Fund houses need to focus more on increasing the penetration of direct funds and also improving the mix of debt and equity funds in this segment.

   Direct plan was announced in the mid of FY 2012-13 and was implemented w.e.f. 1 January 2013. During the same period (Oct 2012), additional Total Expense Ratio (TER) and TER claw-back was announced. The number of new distributor registration during this period went down significantly. However, there have been signs of recovery in the trend of new distributor registration post that. The current FY (extrapolated) indicates nearly 10,000 new distributor registrations. The new cadre of distributors attracted distributors one-time since it was launched in FY 2013-14. Even this did not gain momentum post that. Overall, it appears that the new distributors are getting attracted to the industry primarily because the industry and MF schemes are performing exceptionally well.[07]

07. https://www.amfiindia.com/research-information/other-data/industry-data-analysis accessed on 05 November 2016; KPMG in India's analysis, 2016 https://www.amfiindia.com/research-information/other-data/industry-data-analysis accessed on 05 November 2016; KPMG in India's analysis, 2016

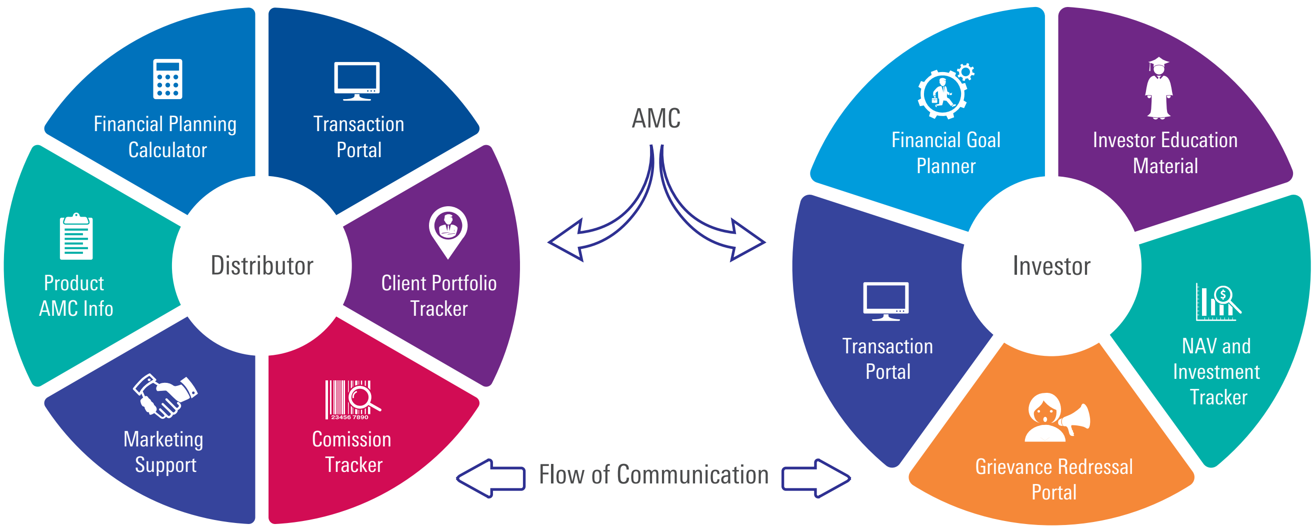
d. **E-commerce boom:** Riding on the back of the e-commerce boom and with a view to widen geographical distribution and penetration of mutual funds at lower costs, market regulator SEBI is keen to explore e-commerce platforms as a medium for distribution. Bottlenecks in the present KYC process are expected to be addressed using the e-KYC route meant to ease and simplify the client onboarding process. Details on the commission structure and type of schemes to be offered through the online marketplace channel are still awaited.

e. **Whole bank approach through investment advisory:** For a smoothly integrated asset management approach, several of the big private sector banks are looking at merging with their respective wealth management arms thereby encouraging an in house 'manufacturer- distributor' ecosystem. This not only improves economies of distribution but also increases the ease of transactions for the customer, giving him or her a single point of contact for all financial needs spanning across banking, insurance and investment.

Many leading private sector banks in India have been focussed on expanding their wealth/asset management arm, as contribution of profits from this line of business has seen a steady upward trend in the overall pie of group profits. Such partnerships not only provide higher penetration to the fund houses by leveraging on branch banking networks but also help the banks retain their customers in a closed loop of approaches to their financial needs.

f. **Digitisation:** Digital media is expected to connect AMCs with the end investors beyond transactions, they are meant to increase customer convenience and enhance customer experience. With an increase in internet reach and use of smartphones (at least 200 million smartphone users by 2016), it has become imperative for AMCs to harness the digital medium to tap the tech savvy youth segment, who prefer to carry out many of their transactions online such as for banking, shopping and ticketing.

Digitisation in mutual funds



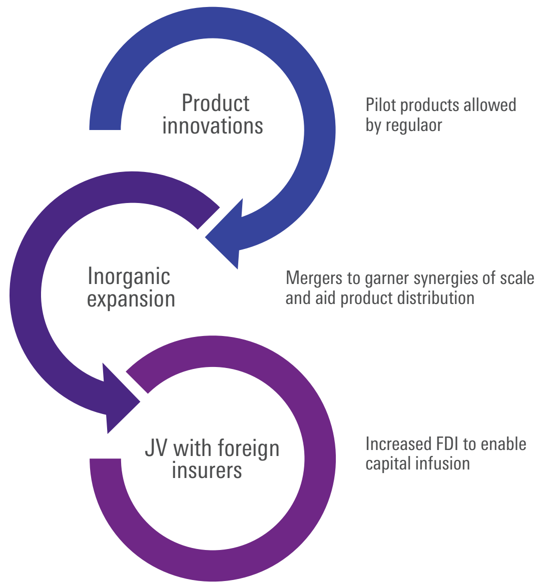
Source: KPMG in India's analysis, 2016

Digital platforms may also prove to be one of the most important channels for distribution in B-15 cities, given the comparatively high cost of establishing a distribution network. With point of sale mobility, chances of garnering new AUM through better investor connect (customised real time marketing support), increases manifold. Some AMCs have already been utilising SMS or other modes text messages, to send product information to their distribution partners in various cities.

Insurance

Similarly some of the strategies that insurance companies can adopt to increase their last mile reach are as follows:

a. **Product innovations:** The regulatory amendments in the health insurance sector have proved to be a driving factor in developing new products. The new health regulations of 2016 banned life insurers from offering indemnity based health products. The regulator expects insurers to work towards product innovation, reward health conscious customers, allow loan linked group health and group accident policies with a five year tenure. The regulation allows 'Pilot' products with a policy term of one year can be offered for sale by general insurance or health insurance companies for a period not exceeding five years from the date of launch. Earlier the insurers were not allowed to withdraw a product within a year of its launch. New norms allow insurers to conduct market testing of the products and check the viability with limited risk.



Source: KPMG in India's analysis, 2016

b. **Inorganic expansion:** Apart from product innovations, insurers are betting on inorganic expansion to improve overall business growth. Large merger marks the beginning of the consolidation era in the Indian insurance industry. Companies have been struggling even after eight years of their launch. To improve the business growth, insurers are looking for ventures and for any successful venture there is requirement of strong distribution, scale aided synergies in expenses of both the parties and varied clientele. Hence, it is expected that in 12-18 months, three to five ventures of small and mid-sized companies may take place.

c. **Possible joint ventures with foreign partners to ease the impact of capital crunch:** The new insurance bill of 2015 has opened the market for foreign insurers and is expected to create a level playing environment for insurers. The raise of FDI cap from 26 per cent to 49 per cent is likely to lead to foreign insurers entering the Indian market and Indian insurers engaging in stake sales to foreign players. The industry has been facing capital crunch. Hence, expansion in FDI cap is expected to ease the pressure on insurers. More joint ventures are expected in the reinsurance segment. The insurance bill has opened the market for re-insurers in India who would now be allowed to open branches to write reinsurance business. Presently there is only one Indian reinsurer and only a few global majors which operate as service companies in India.[08]

Bancassurance to be a game changer

From 1 April 2016, IRDAI has revised norms for bancassurance, under which the banks will be allowed to tie-up with three life, three non-life and three standalone health insurance companies. Under the earlier rules, that the banks could only sell products of one life, one non-life and one standalone health insurer.

There is still a large scope since public sector banks with more than 40 crore accounts have an insurance penetration of just over 1 per cent. It is estimated that increase in penetration in public sector banks alone to 15 per cent, can add five crore customers and generate additional INR60,000 crore in life insurance premium in the next five years.[09]

The General Insurance industry growth (in terms of premium) has tripled over the last decade[10], however penetration and density remain low indicating significant headroom for growth. Both motor and A&H insurance are expected to achieve higher market share on account of resumption of growth trends in auto, industrial production, infrastructure sectors; product innovation (especially in health insurance, rural and micro insurance); increased coverage of government schemes such as RSBY and other health insurance schemes; and separate bancassurance tie-ups for pure play health insurance.

While the insurance industry still struggles to move out of the shadows cast by the challenges and uncertainties of the last few years, the strong fundamentals of the industry augur well for a road map to be drawn for sustainable long-term growth. The available headroom for development, sustainable external growth drivers, and competitive strategies is likely to continue to drive growth in the gross written premiums. However, insurance companies need to address a key concern around losses that continue to be a drag on the capital and on the shareholders' return expectations.

08. http://articles.economictimes.indiatimes.com/2015-03-19/news/60286647_1_foreign-reinsurers-insurance-bill-munich-re accessed on 07 November 2016

09. http://www.business-standard.com/article/finance/open-architecture-of-bancassurance-now-a-reality-in-insurance-116080201242_1.html accessed on 10 November 2016

10. IRDAI annual reports 2007-2015, Insurance Regulatory and Development Authority, 2008-2016; KPMG in India's analysis, 2016

Product manufacturers have significant channel partner expectations

For the vision 2020 to be achieved, managing distributor expectations is a key driver in changing the way the financial distribution industry works. Similar to other financial sectors, technology has played a significant role in changing the dynamics of doing business in the mutual fund landscape, especially by creating efficiencies for distributors. Let us have a look at some of the most successful interventions which have significantly improved the ease of doing business for mutual fund distributors.

Technological advancements

- **On-boarding through e-KYC:** For first time investors, the e-KYC functionality has enabled much faster applications. All non-KYC complaint investors can now become compliant by logging into the KYC registration website, by using their Aadhaar card credentials, followed by a simple OTP verification and document upload process.

- **Technology assisted sales:** Availability of dashboards and portals to assist distributors with relevant advanced analytics on financial statistics such as trends in AUM growth, client acquisition trends and detailed explanation of their AUM mix with proper analysis can be beneficial to the distributors.

  The assistance from such platforms can also lead to an increase in sales of money market funds and the likes, which typically does not happen through the advisor channel due to lack of economic viability.

- **Technology assisted process automation:** The process digitisation and automation can help distributors to easily go online in just a few days by re-engineering their business completely to suit the requirements of an online landscape.

  The distributors can automate all aspects of their business starting from research, execution, portfolio monitoring and reporting to even a single click portfolio rebalancing. Given that the brokerage structures are otherwise very complex, platforms like these give distributors a chance to up their offering and even consider the possibility of charging a premium/ convenience fee to its customers for this service. For the customer as well, this implies a technological advisor and a platform which constantly upgrades to help them track and monitor their wealth.

Similarly, changing partner expectations are driving transformational change in insurance companies in their distribution modes. Expectations of the channel partners have been shifting more on initiatives of the insurers that enable the agents achieve better visibility of future sales which can eventually translate to higher commission

Some of the key expectations of channel partners are:

Assisted sales and a dedicated relationship manager

High commission and performance of the insurer in terms of claims ratio are some of the key factors that encourages a channel partner in insurance sale. However, digital tools for assisted sales and dedicated relationship manager have gained prominence in the past few years.

Assigning a dedicated relationship manager to a channel partner helps in getting to know the challenges being faced by channel partners and enables instant gratification. Just making a customary visit does not suffice the expectation of channel partners. Assistance in business development helps in sustenance of the channel partner with the insurer for a longer term.

A dedicated agent portal

Dedicated portal serves as a central point for IFA with details on product portfolio, clients and performance of products. It helps an IFA remain informed and track their performance. IFA portal is developed with an omni-channel perspective which also helps an insurer in capturing, tracking and managing leads generated from different channels.

Example: A leading fund house provides financial assistance to selective well performing IFA in developing or expanding their mutual fund business.

There is another such innovative assisted tool which provide 'Auto-enrol' tool for their IFA's. The planner creates a checklist and project plan of the actions and decisions a customer needs to take to get ready for auto-enrolment. Once IFA has created the plan for a client, the planner sends out automated emails in IFA's name. It tells his/her client what tasks they need to complete. The planner helps the IFA to cut down the amount of time it takes to support a client through auto-enrolment.

Digital solutions

In a bid to go paperless with efficient customer on-boarding, insurers have introduced digital solutions for channel partners.

Example: A leading public sector life insurance player introduced a tablet-based service last year across all distribution channels called 'Connect Life', to digitise the entire documentation process. It also includes a built-in need analysis calculator that gives insights on right products to purchase, assisted form filling with a facility of paying a premium immediately and uploading necessary documents from the tablet.

Regular training on the ways the market functions instead of product

The insurance industry is focussed on product training and mandatory trainings that a channel partner and employees of insurance company need to take in every 6-12 months. Skill development and market knowledge carry least importance among several of the insurers. Regular information on the market apart from product is the need of the hour. It helps a channel partner to get effective guidance to a customer during the selling process.

Instead of having reward programmes in the form of foreign tours, channel partners expect that they should be sponsored for insurance knowledge sessions or specialised certification at premium institutes.

Example: One of the market leading AMCs has adopted this model of knowledge enrichment for their channel partners. The AMC conducted a 15-20 day session for their mutual fund IFA on CPFA training.

New distribution channels in the industry

The new initiatives by SEBI such as digital signatures to allow paperless onboarding, e-KYC, have given a boost to the digital wave in the mutual fund industry. In addition to regulatory support, we find many incumbents adopting innovative models that have resulted in cost savings and higher customer satisfaction. A major aggregator platform gets 25 per cent of its transactions via mobiles. Similarly, banks are providing online transaction platforms for customers to invest in MF.

Emerging distribution channels and ongoing regulatory changes resulted in rising preference of customers in mutual fund purchase via digital channels. New fintech players are entering the distribution market with solid technology solutions and are taking the business away from traditional distributors. Gen Y and Z users are highly influenced by these players and are starting their first investments through these distributors. They are very light or has no geographical footprint. The technology platform created by them is self-sufficient to carry out all required transactions and view different reports including a well-designed portfolio. These players are providing remote relationship manager support through call centre and research content on an ongoing basis to help customers select right investments.

It is seen that the acquisition model in getting oriented in three types:

- Pure online
- Physical (Affluent)
- Physical + digital (Affluent)

Similarly the servicing channels have evolved into:

- Pure online
- Call centre
- Physical + digital (Affluent)

One of the distribution disrupters in the mutual fund industry around innovative models is as follows:

Tie-up with NBFCs/postal networks/payment banks

In the wake of increasing financial inclusion in the country, AMCs have a host of alternate channels at their disposal which have their own existing network and infrastructure for distributing financial services at the grass root level. Such alliances with payment banks and other upcoming NBFCs not only help tap the unbanked sector as a whole but also improve the cost economics of these institutions for increasing profits.

Insurance industry has witnessed emergence of new categories of distribution channels

Rising competition has forced channel partners to improve their performance and maintain a strict code of conduct.

The direct channel

The direct channel could be tapped though it is difficult to sell insurance through this mode. The online channel in particular has great potential to take off. Processes such as purchase of insurance products, transfer of premium amounts and filing of claims can be carried out through remote devices such as tablets and mobiles. A Dutch financial services company which has an insurance JV in India, has recently announced its shift towards direct selling whereas globally they have only 15 per cent sales from direct channel. Greater persistence (~90 per cent) in direct channel in India has encouraged the company to shift towards digital channel.

Insurance marketing firms

Insurance marketing firms, created in 2015 are entities authorised to distribute insurance as well as other financial products such as mutual funds and pension products, that are mandated to employ individuals licensed to market, distribute and service these products. This category of insurance distributors could be in the form of a private limited company, LLP, co-operative society, or any individual as recognised by the IRDAI.

Under Insurance Marketing Firms, there are two kinds of licensed individuals, first an insurance sales person who is responsible for selling insurance and second, a financial service executive who distributes other financial products. An insurance marketing firm is not mandated to distributing products of only one particular company, but rather they are mandated to take care of a specific region in order to enhance penetration and customer service. With the evolution of IMFs, we could see insurers lose agents and revenue margins, although there may come greater opportunities to distribute their products. An important regulation with respect to this entity is that, a player should have a net worth of at least INR10 lakh to be an insurance marketing firm and managing such contradictions could become a challenge for the industry.

Common service centres

Common service centre (CSC) were set up by the Government of India and The Department of Electronics and Information Technology as a public-private-partnership project under the National e-Governance Plan. The establishment of CSCs was a huge step towards financial inclusion by enabling them to be the front-end distribution points for government, private and social sector services to citizens of India.

In 2013, IRDAI allowed insurers (life and non-life) to utilise the network of common service centres for increasing the penetration of retail insurance policies and services. For this purpose, Special Purpose Vehicles (SPVs) can be leveraged with required assistance from the Rural Authorised Persons (RAPs) in rural areas.[11]

11. http://cafemutual.com/news/insurance/2725-irda-allows-insurance-companies-to-use-common-service-centres-cscs-for-distribution accessed on 05 November 2016

Learnings from other industries

a. **Leveraging the Bank Correspondent Model:** The IFAs and advisors can replicate the usage of handheld devices for better distribution of MFs and insurance products similar to that done by BCs in the banking industry. The handheld devices which are enabled with GPRS or CDMA connectivity can be used to make transactions on a real time basis. To facilitate ease of transactions, these devices are linked to banking systems, payments gateways and the overall mutual fund transaction ecosystem at the back end.

b. **Microfinance:** Microfinance companies have done a very good job in enhancing reach of financial services product offering and spreading financial literacy to the unbanked population in India who lie at the very bottom of the socio-economic pyramid. Similar to how microfinance companies leverages business correspondents network to reach out to the huge mass of unbanked Indians, even fund houses can enter into such partnerships with BCs, microfinance companies, newly awarded small finance bank and payments bank to extend their offerings to the same target group of the Indian population. Offering simpler low risk-low return funds to this demographic class and spreading the awareness around mutual fund products and insurance products can be an important first step in making the rural masses cognisant of the importance of investing in SIPs to grow their wealth and importance of insurance for a secured future.

c. **Telecom:** The liberalisation of government regulations in this sector along with the positive influx of FDI and growing customer demand for smart devices and mobile connectivity has been instrumental in the rapid growth and penetration of this industry. Prepaid mobile recharge voucher distribution network including franchisee and micro distributors like small local kirana shops in a village made availability of service to each and every individual. Taking cue from the telecom industry, the MF industry can setup micro distributors and come up with product innovation to drive the penetration to get the next billion customers for them. The AMCs/mutual fund companies can also leverage the distribution network setup by the telecom industry and ride the wave of government push of financial inclusion and information flow to reach out to those rural groups who are otherwise difficult to connect with, owing to huge cost of operationalising physical branches in such locations.

Front runners in the new distribution era to embrace distinct qualities

The competition is expected to intensify in the market place resulting in lower advisory fee. A front runners are likely to be the one whose service model is defined by the following five characteristics:

1. **Accessibility** – Excellent wealth management services to be provided to a wider customer base as minimum threshold to avail these services is reduced by using cost effective technology tools.
2. **Transparency and control** – With live dashboard and tracking available through sophisticated tools, customers can view his/her portfolio and make adjustments to their financials more readily.
3. **Convenience** – With mobile channel taking the centre stage institutions are in a position to provide much more convenience to customers by interacting with them directly and delivering value services on the go.
4. **Personalisation** – With demographical and large behavioural data of customers being available, smart algorithms can be built to provide high degree of customisation and individualisation to the entire gamut of customer base, without worrying about profiling the customer by visiting/talking to the customer on one to one basis.
5. **Cost effective** - Automation is likely to lower the operating costs for distributors & AMCs. This will result in providing advisory & other services to client at far lesser costs. New disruptive players will enter the market & trigger the price war.

Trust through technology

Fund distribution is at a turning point. Although the status quo of the industry has been in a state of continuous metamorphosis for some time, the current regulatory agenda has introduced a profound shift in the investor base, and recent technological developments are accelerating the pace of change. These changes are forcing traditional financial industry players to rethink the way they interact with the new generation of investors, keeping in mind that security, simplicity, transparency, convenience, personalisation and price effectiveness have long been important factors to win the new generation's trust.

A combination of content marketing, social media dissemination, mobile apps, online aggregators, direct investment through banks' website, etc. have opened up wider means of investment for retail investors. Direct investment has come to light recently. Since there are no intermediaries involved in direct plans and expense ratio is lower, investors prefer to buy direct plans online. Also with the introduction of Aadhaar based e-KYC, the need of going to the branch and submitting documents has become non-existent now. Investors can simply register online and invest in a faster more convenient and trusting environment. Similarly, technology developments have enabled creation of information rich mobile apps to not only promote and sell products to the clients but also build trust and increase brand awareness.

Retail clients mainly look for low cost and innovative solutions that could better meet their demands, hence asset managers are coming up with tailored cost effective products, and they are also leveraging European Long Term investment Funds (ELTIFs) and future European Personal Pension (EPP) framework are under discussion to propose a range of pension products.

Technology-based disruptors in the distribution channel

With the advent of technology in financial services industry, the distribution business is also no exception and has seen some amount of traction by means of technology disruptors. This coupled with regulatory changes, evolving investor profile and increased investor awareness over last couple of years has induced new means and ways of distributing financial services. The new players are building businesses on fintech platforms and the existing players are also induced enough to embrace technology.

Financial Distribution space has seen technology infusion with the use of social media mobile apps, online aggregators, direct investment through banks' website, etc. have opened up wider means of investment for retail investors. Direct investment has come to light recently. Since there are no intermediaries involved in direct plans and expense ratio is lower, investors prefer to buy direct plans online. Also with the introduction of Adhaaar based e-KYC, the need of going to the branch and submitting documents has become non-existent now. Investors can simply register online and invest in a faster more convenient and trusting environment.

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Fund manager/insurers mobile apps

Asset and wealth management industry is moving towards strengthening user experience by providing user friendly tools which act as an online bridge, for both advisors and end clients. Insurance industry players have developed applications which can be accessed through mobile apps or web browsers and allow clients to engage with financial products and services. These apps cover a wide spectrum of solutions spanning across simple transaction type services to client association based functions. Main functions include product categories with options, news feed and video offering investment insights summaries. Some insurers also offer mobile apps for insurance quotations, policy maintenance and insurance claims submission.

Example: One of China's leading and world's largest e-commerce players has devised a investment product in which customers can keep their money. This is in turn is invested by the e-commerce giant in to funds. The customers can withdraw their money anytime they want. There is no transaction fees or purchase/redemption fees. The rate of return is also far higher than what is being offered in general saving schemes in the country.[01]

01. http://www.ibtimes.com/alibabas-online-money-market-fund-yue-bao-8-things-you-need-know-1560601#. accessed on 14 November 2016

Robo advisors

One of the latest developments in the wealth management and financial advisory space is the invention of 'robo advisors'. These are automatic and algorithm based tools that make investing effortless or for that matter reduce or negate human intervention.

. The approach has led to excellent customer service without any human intervention. The robo advisors are even capable of switching between the schemes and tax loss harvesting.

By offering services going from investment facilitation to portfolio management, they allow distribution of funds directly to retail clients together with automatic advices based on their age, risk aversion, income requirements, investment timeframe, income, saving and assets. Robo-advisors' approach therefore are impinging on many blocks of this value chain

On a global basis, robo advisors are forecasted to manage 10 per cent of global asset under management (AUM) by 2020. This translates to INR500.2 lakh crore having said that global wealth managers had INR4,627.2 lakh crore of AUM in 2014.[02]

Building a robo-advisory case study

One of Americas leading banks' wealth unit partnered with robo-adviser providing online investment advice. The deal features both an equity investment in the automated investment platform and new software solutions for UBS wealth mangers. It initially targeted B2C, but now has aggressively started targeting B2B.[03]

Social media

Social media has started playing significant role in fund distribution. This channel has been a favorable tool for delivering opinions on current product offering and customer experience.

With the advent of social media customers have been able to compare notes and are also informed by way of word-of-mouth. All this leads to quicker dissemination of information amongst investors and impacts brand perceptions and buyer behavior. Social media has a far reaching impact on several stages of customers' fund selection processes including the initial recognition of need, the evaluation of alternatives and the investment decision itself.

Building a social media distribution case study

MovenBank (U.S.) has developed a credit-scoring product called CRED combining traditional scoring elements alongwith consumer data coming from social websites to calculate the creditworthiness and loan pricing accordingly. Similarly, Chinese social media platforms are leading the way in the exciting area of creating new business models using social media. One of the world's leading online video streaming website is the perfect platform for educating consumers and intermediaries on companies, products and financial themes

Direct plans platform

To develop and grow direct funds MF Utility platform may play a significant role. Along with this, the product manufacturers need to scale up the direct chanel stores for garnering more sales though this channel. MF Utility is an efficient 'Transaction Aggregating Portal', a shared infrastructure of the AMCs in India. The genesis of this portal was to remove any duplicity and increasing efficiency. to enhance customer convenience. Customer can generate the common account number and using that invest into any of the schemes of 25 AMCs.

Example: There are multiple players who offer direct plans on their platform along with robo advisors and have taken advisory led direct plan investment model which is propagated by SEBI under a registered investment advisory license.

02. http://www.businessinsider.in/THE-ROBO-ADVISING-REPORT-Market-forecasts-key-growth-drivers-and-how-automated-asset-management-will-change-the-advisory-industry/articleshow/52669856.cms accessed on 15 November 2016
03. http://www.reuters.com/article/us-ubs-wealth-idUSKCN0Y71FK accessed on 14 November 2016

Personal finance managers

The spurt in online platforms has aided investors in acquiring third party funds and financial advisors to monitor their client's investments using their laptops. A successful online aggregator of funds may shape the future development of the life insurers' individual distribution model, including the direct channel.

Example: An online money management platform offered by a leading player helps customers in managing their finances online. The platform has been utilised by customers to access their bank accounts, investments including offline investments such as gold and real estate, credit cards, loans, incomes and expenses in a secure environment.

The whole purpose is to get a single window view of their financial universe. The platform also offers expense tracking, setting budgets, tracking transactions, registering for bill payment and online tax filing services.

Another model which has picked up in India is where a mobile application reads ones SMS on the mobile and classifies income and expenses into correct expense/ income heads and provides view of expenditure and income patterns. These players have recently entered the space of MF distribution and provide options to customers to invest in liquid funds from their application. Players active in this space are Moneyview, Walnut, etc.

Online aggregators

An online aggregator helps combining the products available in a financial stream and helps customer's make an informed decision by comparing all the products in a single window. The online channel is expected to shape the future development of the life insurers' individual distribution model, including the direct channel. As suggested by the SEBI Chairman in December last year, the sale of mutual funds on top e-commerce websites like might be a possibility in the near future.

While for the customer this means the ready availability of mutual funds along with all other products online, the more important effect will be on distributors wherein the entire layer of advisors might become redundant in the direct to customer digital set up.

Example: One of the initial players in the start-up environment, who are dominant in the online aggregator space in India has disbursed loans worth INR200 crore in the first year of operation in 2008 which grew 15 times in the next four years of operation.[04]

04. http://www.rediff.com/money/report/slide-show-1-the-success-story-of-bank-bazaar/20121017.htm accessed on 11 November 2016

Summary

India is at the cusp of growth with the economy bouncing back and a rise in youth population with an affinity for technology. This provides a myriad opportunities for mutual funds and insurance companies to cater to a wider investor base with innovation in the way they cater to the customer needs.

Product innovation, a digital strategy and an enhanced distribution channel are some of the key themes for the product manufacturers to reach the desired penetration. Regulatory impetus and the efforts from financial services firms to empower investors and bringing in the element of trust are expected to yield a better connect in the near future.

A digital strategy encompassing mobile, social media, internet, new models like supermarket and the advent of new financial services players like small banks, payment banks and PPIs are expected to set the ball rolling for greater penetration. Taking cues from successful global economies, we expect the traditional distributors to continue playing a key role as the point of contact for the masses. However, this channel needs a digital boost to widen and deepen its capacity to cater to the new age customers. It needs on the move access to education material, investor need analysis tools and post-sale servicing apps.

The need of the hour is to create a chain of zillion distributors to tap the underlying investor potential in India. Technology disruptors, new players and traditional channels will have to work together towards bringing in trust from customers and educating them of the immense potential of the financial services sector for a rewarding situation for all the players in the landscape.

About KPMG in India

KPMG in India, a professional services firm, is the Indian member firm affiliated with KPMG International and was established in September 1993. Our professionals leverage the global network of firms, providing detailed knowledge of local laws, regulations, markets and competition. KPMG has offices across India in Chandigarh, Gurgaon, Noida, Ahmedabad, Vadodara, Mumbai, Pune, Bengaluru, Kochi, Chennai, Hyderabad and Kolkata. KPMG in India offers services to national and international clients in India across sectors. We strive to provide rapid, performance-based, industry-focussedand technology-enabled services, which reflect a shared knowledge of global and local industries and our experience of the Indian business environment.

KPMG International

KPMG International is a global network of professional firms providing Audit, Tax and Advisory services. KPMG member firms operate in 155 countries and have more than 174,000 outstanding professionals working in member firms around the world.

The KPMG Audit practice endeavoursto provide robust and risk-based audit services that address member firms' clients' strategic priorities and business processes.

KPMG's Tax services are designed to reflect the unique needs and objectives of each client, whether firms are dealing with the tax aspects of a cross-border acquisition or developing and helping to implement a global transfer pricing strategy. In practical terms that means, KPMG firms work with their clients to assist them in achieving effective tax compliance and managing tax risks, while helping to control costs.

KPMG Advisory professionals provide advice and assistance to help enable companies, intermediaries and public sector bodies to mitigate risk, improve performance, and create value. KPMG firms provide a wide range of Risk Consulting, Management Consulting and Deal Advisory services that can help their clients respond to immediate needs as well as put in place the strategies for the longer term.

About CII

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering industry, Government, and civil society, through advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and industry-managed organization, playing a proactive role in India's development process. Founded in 1895, India's premier business association has over 8000 members, from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 200,000 enterprises from around 240 national and regional sectoral industry bodies.

CII charts change by working closely with Government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness and business opportunities for industry through a range of specialized services and strategic global linkages. It also provides a platform for consensus-building and networking on key issues.

Extending its agenda beyond business, CII assists industry to identify and execute corporate citizenship programmes. Partnerships with civil society organizations carry forward corporate initiatives for integrated and inclusive development across diverse domains including affirmative action, healthcare, education, livelihood, diversity management, skill development, empowerment of women, and water, to name a few.

The CII theme for 2016-17, Building National Competitiveness, emphasizes Industry's role in partnering Government to accelerate competitiveness across sectors, with sustained global competitiveness as the goal. The focus is on six key enablers: Human Development; Corporate Integrity and Good Citizenship; Ease of Doing Business; Innovation and Technical Capability; Sustainability; and Integration with the World.

With 66 offices, including 9 Centres of Excellence, in India, and 9 overseas offices in Australia, Bahrain, China, Egypt, France, Germany, Singapore, UK, and USA, as well as institutional partnerships with 320 counterpart organizations in 106 countries, CII serves as a reference point for Indian industry and the international business community.

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