Indian fund flows heat up

Equity assets under management have doubled for Indian mutual funds in the last twelve months, reflecting broader optimism among domestic retail investors.

According to ratings agency Fitch, "India is the only BRIC country, where growth will accelerate, to 8% in 2016 and 8.3% in 2017, based on revised data series." Recently, the World Bank and the IMF both highlighted that India's growth could outpace that of China within a couple of years.

Equity assets under management (AuM) for mutual funds in India have grown faster in the last year than they have in the previous nine years (year-on-year). Funds equity AuM has almost doubled since February 2014, with a heavy increase in the number of local investors.

"About 50% of this rise could be attributed to the mark-to-market gains due to the rise in stock market indices over the last year," according to Manoj Nagpal, CEO, Outlook Asia Capital. Sensex (S&P Bombay Stock Exchange Sensitive Index), which tracks 30 major companies listed on the Bombay Stock Exchange, rose over 31% during this period, while the industry's equity assets more or less doubled from R1.57 trillion (US$23 billion) in February 2014 to R3.07 trillion (US$48 billion) in February 2015, according to the Association of Mutual Funds of India (AMFI). The investment during this year was almost equivalent to the cumulative level of investment made by mutual fund managers between 2004 and 2008.

Nimesh Shah, managing director and CEO of ICICI Prudential Mutual Fund, considers one contributing factor to be the recent decline in performance of alternative asset classes, including gold and real estate. This is supported by the fact that gold is down 13.35% over the same period.

Regardless of this, 2014 net investments by equity fund managers were the highest in the sector's history, observes Sunil Singhania, CIO (Equity), Reliance Mutual Fund.

Individual investors hold 46.2% of mutual fund assets, according to latest estimates: up from 43.9% a year prior. Institutional investors account for 53.8% of assets, of which corporates comprise 87.3%. The rest are Indian and foreign institutions. Ninety percent of institutional assets were reportedly held in liquid / money market schemes and debt oriented schemes.

Total assets managed by the Indian mutual fund industry grew from R8.96 trillion (US$140.7 billion) in March 2014 to R12.11 trillion (US$190 billion) in March 2015. This comprises an absolute growth of 35% in assets in the current financial year to date.

"Standard Chartered has gained market share of custody and fund accounting mandates from domestic mutual funds," says Ashutosh Kumar, managing director and regional head, South Asia transaction banking, Standard Chartered. However, the significant rise in mutual fund investment has allowed custodians as a whole to increase their business, regardless of market share. The market's strong position appears to be accommodating all providers and is allowing for further investment in service provision.

Recent history

The performance of mutual funds is impressive for an industry that is relatively young. While Unit Trust of India (UTI), a public sector body, was the pioneer in Indian mutual funds, launching in the early 1960s, it was only in 1987 that non-UTI, public sector mutual funds set up by public sector banks, Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC), entered the market.

With the entry of private sector funds in 1993, a new era began in the Indian mutual fund industry. Indian investors gained a wider choice of fund families. This was also the year when the first Mutual Fund Regulations were established, under which all mutual funds, except UTI, were to be registered and governed.

The 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised set of Mutual Fund Regulations in 1996, which underpin the current regulatory framework.

The number of mutual funds made available within the Indian market continued to increase, as many foreign fund managers began setting up funds in India. The industry also experienced several mergers and acquisitions. By the end of January 2003, there were 33 mutual funds, comprising total assets of R1.2 trillion (US$19 billion). UTI boasted R445 billion (US$7 billion) AuM – placing it far ahead of other mutual funds.

In February 2003, following the repeal of the Unit Trust of India Act 1963, UTI split into two separate entities: The Specified Undertaking of the Unit Trust of India, and The UTI Mutual Fund.

The mutual fund industry still remains in an overall phase of growth. "There has been an upward growth momentum in the assets under management of the domestic fund industry over the last 8-10 months," says Anand Rengarajan, managing director and head of investor services at Deutsche Bank, India. "In addition, we have seen positive growth in equity assets, which should bode well for the domestic industry."

"There are several signs that clearly show the growing maturity of the mutual fund industry such as the rising investor base, higher focus on investor education, and continuous improvements in the regulatory environment," says Singhania. "Though it has a long way to go compared to more developed economies, the industry is definitely going in the right direction"

The importance of investor education is also highlighted by Kumar, who points to efforts by AMFI and SEBI, the Indian regulator, to encourage investor awareness campaigns. "Low customer awareness levels and inadequate financial literacy pose the biggest challenge [for maximising domestic] savings in mutual funds," says Kumar.

"[Mutual] fund houses are also mandated by regulation to invest two basis points from scheme expenses into investor education and awareness campaigns," he adds. "The AMFI recently recommended that asset management companies place the funds in a separate bank account at the end of every month."

Singhania believes that investment in technology will also play "a significant role" in the future development of the mutual funds industry. This is supported by the fact that many clients have referred to online services and web interfaces as high service priority areas.

An increased focus on updating technology is evident amongst providers. "We have automated certain aspects of the financial reporting in the format prescribed by the regulator," states Rengarajan. "This has resulted in considerable time saving in our deliverables, while ensuring accuracy of reporting," he adds.

An area where our survey results suggest that further investment in technology is required is that of the mutual fund debt market. The 2013 Indian Budget introduced a dedicated debt segment on the stock exchange, through which debt mutual fund schemes could be traded. Perhaps as a result of this relatively new addition to the mutual fund market, several survey participants have now identified the need for technological advances regarding debt straight through processing (STP).

GST

Meanwhile, the proposal within the current budget to raise service tax from 12.36% to 14% has been described by Revenue Secretary Shaktikanta Das as "a necessary measure in our movement towards Goods and Services Tax (GST)."

GST is due to be implemented on April 1 2016. On May 6 2015, the proposal passed through the Lok Sabha (lower house). However, the Bill must still pass in the Rajya Sabha (upper house), where the opposition is more forceful and holds a majority.

Whether GST will be adopted, and how consistently it will be implemented should the Bill pass, is yet to be seen. States may introduce their own exceptions on how GST will apply. It is therefore likely to affect the mutual fund industry, if not across all states, then across some of them.

Overall, custodians appear to be maximising opportunities presented in this environment. Although technological demands from investors may still present further challenges for service providers, custodians appear to be fairly confident of their abilities to offer the full range of services to clients. ■

SURVEY OVERVIEW

Settlement still top priority

Both priority rankings and service area scores suggest that settlement is key for clients and well-handled by providers. However, client comments provide a more nuanced picture.

At first glance, the fact that Settlement and Cash Management received the highest priority ranking (see Figure 2) amongst domestic clients of Indian custodians might lead one to infer that this is the area of most importance to clients. Similarly, as Settlement was also the category for which providers obtained the joint highest average score of 6.55 (see Figure 1) – a score shared with Relationship Management and Client Service – it might be assumed that it is a priority well-handled by providers as well.

With an overall score of 9.64, Reputation and Asset Safety received the second highest priority ranking amongst clients. This is in keeping with recent trends in global custody, and also reflects client comments received across the survey, many of which related to the reputation of staff and how reliable and consistent individual providers were.

Nevertheless, when asked to address concerns within technological service provision, the comments received strongly suggest that Technology could be of equal importance to clients, and should therefore be carefully considered by providers as an area requiring further attention.

Clients were particularly concerned about straight through processing (STP), with one bemoaning a lack of provision for "straight through processing for corporate actions and proxy voting."

Five clients of one particular provider stressed the need for greater efforts in STP for the debt segment of exchange activity. One client specified that this applied to the "primary market specifically," whilst another pointed to the need "to have more of an automated framework for the debt market [with regard to] trading and settlement." A third client commented that "the market mechanism of debt trade settlement should be aligned with equity trades."

"Online support" and "web interface" were both recognised by clients as areas where technological advances in service provision would be welcome. One client stated that "Web interface is of paramount importance, so that client queries can be resolved without having to call [providers]." This suggests that clients will increasingly factor automation into their custody purchasing decisions – a development in-line with the feedback provided across most *Global Custodian* domestic surveys.

According to one asset manager, "use of the latest, updated technology for acceptance, matching and settlement" is the most important technological consideration within the Indian domestic market. Another identified "ease of account opening" as the area requiring the most technological improvement.

However, the comments received in relation to technological services should be considered in context. A larger percentage of respondents provided feedback on their provider's general services than their specific approach to technology.

The service area with the lowest priority score of 1.89 was Trustee and Administrative Services. This was well behind other categories and its position can perhaps be explained by the fact that this area of service is not offered by all of the providers. Another reason for the low client priority score could be that administrative services were often discussed in relation to technology or reporting, both of which received reasonably high priority scores.

Figure 3 shows the different types of clients who responded to the survey. Asset Managers and Mutual Fund Managers accounted for over 60% of all respondents. Almost 20% of respondents were categorised as 'Other', including a relatively large number of pension funds. Broker/Dealers represented only 2% of client responses, and typically gave lower overall scores than other clients.

Figure 4 displays the various sizes

Fig 1: Average scores by category

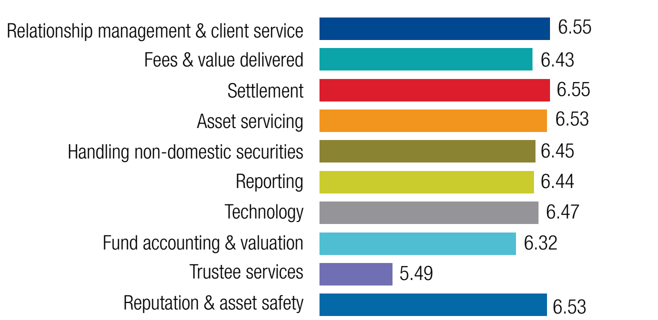

Fig 2: Respondent priorities ranking

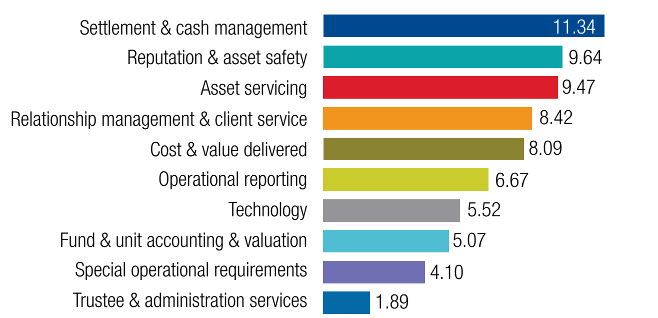

Fig 3: Type of respondent

- Asset manager – 39.2%
- Mutual fund manager – 23.5%
- Broker or dealer – 2.0%
- Insurance company – 13.7%
- Bank – 2.0%
- Other – 19.6%

Fig 4: Size of respondent

- Up to US$ 100 million – 25.5%
- US$ 100 to 500 million – 19.6%
- US$ 500 to 1,000 million – 17.6%
- US$ 1,000 to 5,000 million – 15.7%
- US$ 5,000 to 10,000 million – 13.7%
- Over US$ 10,000 million – 7.8%

of respondents, according to assets under management. The most represented size of respondent was less than R1 billion (US$15.6 million).

The overall conclusion from the survey is that whilst average scores matter, and are a good indicator of general areas of improvement, specific client comments provide an idea of what is top of mind for clients in the present environment. While Settlement and Cash Management, Reputation and Asset Safety and Technology are clearly of considerable importance to clients, there remains scope for further enhancements across a number of service areas. ■

Methodology

Global Custodian domestic surveys are intended to assess the extent to which local service providers are meeting the expressed needs of their domestic clients. Such needs are often different from those of cross-border investors covered in the Agent Bank surveys published by the magazine. Many service providers also focus mainly or exclusively on domestic clients.

To obtain the relevant information, clients are invited to complete a short questionnaire. This typically involves around 20 questions. The questions are grouped into between eight and twelve service categories for presentation purposes. Respondents evaluate each question for each service provider that they use. Scores range from 1 (Unacceptable) to 7 (Excellent). Where clients have insufficient experience of a service or do not use it at all, they can enter N/A. Clients are also asked to indicate which categories are most important to them in assessing the overall service being received, and are given the opportunity to provide explanatory comments and identify specific strengths and weaknesses of their service provider(s).

Each question is given an individual weighting depending on the importance attached to it by clients. Each respondent is given a weighting based on the scale and breadth of their business and the detail included in the responses they provide. Respondents are also described by their type of business and the level of their assets under management (AuM).

Global Custodian's Research department calculates weighted average scores for each provider, for each question, each category and an overall total. The Research department also calculates scores for different types and size of respondent, allowing us to reflect as accurately as possible, the relative position of each service provider, both overall and with specific client subgroups. Summary information is presented in each Provider Profile together with, where relevant, explanatory contextual commentary.

More detailed analysis of scores and comments received is available from the *Global Custodian* Research department. This group also administers the digital accreditation process by which suitably qualified providers can receive a formal accreditation of their achievements, in the form of one or more digital badges.

Citi

Citi received mixed feedback, exceeding the market average across 5 (out of 10) service areas. Its scores ranged from 5.45 (out of 7) to 6.69.

Citi's highest score (6.69 out of 7) was received for Settlement, which was also considered to be the category of most importance to clients, according to priority rankings. This was reflected in the client comments, with one client highlighting Settlement and Cash Management as Citi's main area of strength. Two other respondents also mentioned the promptness with which the team resolves queries, perhaps accounting for Citi's second highest score, 6.63, for Relationship Management and Client Service, placing it eight basis points above the market average in this area.

The bank obtained a score of 6.5 (out of 7) for Fees and Value Delivered, which placed it seven basis points above the average for this difficult service area. A few client comments nevertheless suggested that there was still room for further improvement.

Although Citi received the lowest score of all providers for Handling Non-Domestic Securities, it still achieved a respectable 6 out of 7. In absolute terms, the bank's lowest score of 5.45 was received for Trustee Services, which was the category of least importance according to client priority rankings. Half of the participating providers did not receive scores for this category. ■

Table 1: Client breakdown

Asset manager	12.5%
Mutual fund manager	25.0%
Broker or dealer	0.0%
Insurance company	0.0%
Bank	12.5%
Other	50.0%

Table 2: Service area scores

Service area	Citi	India Average	Difference
Relationship management & client service	6.63	6.55	0.08
Fees & value delivered	6.50	6.43	0.07
Settlement	6.69	6.55	0.14
Asset servicing	6.65	6.53	0.12
Handling non-domestic securities	6.00	6.45	-0.45
Reporting	6.43	6.44	-0.01
Technology	6.54	6.47	0.07
Fund accounting & valuation	5.64	6.32	-0.68
Trustee services	5.45	5.49	-0.04
Reputation & asset safety	6.24	6.53	-0.29

Deutsche Bank

In our Indian domestic survey, Deutsche Bank performed well across all service areas bar Trustee Services, for which it was not rated by survey respondents. The bank received a higher than average score for all categories compared to the already impressive market average.

Despite receiving a lower score for Technology than three other large providers in this survey, comments received were generally very positive, and technology was no exception. The overall high regard suggested by client feedback is reflected in Deutsche Bank's highest score of 6.69 (out of 7) for Reputation and Asset Safety.

Several clients described the bank's employees as highly skilled and knowledgeable, whilst another portrayed Deutsche Bank as offering 'Best in Class' services. Two clients also credited the banks 'News Flash' feature with helping them to monitor regulatory changes, while a further two singled out Deutsche Bank's reporting and processing capabilities for praise.

Whilst achieving a more than creditable score of 6.58 for Relationship Management and Client Service, this was only 0.03 points above the market average. To retain its position, Deutsche Bank will therefore have to remain on its toes.

The bank's lowest average score of 6.47 related to Fees and Value Delivered. While this was still four basis points above the market average, these aspects of service were highlighted by clients as areas within which Deutsche Bank could improve. In keeping with other *Global Custodian* services, this is an area where clients often prove difficult to satisfy.

Overall, Deutsche Bank can be pleased with the results of this client survey. ■

Table 1: Client breakdown

Asset manager	21.7%
Mutual fund manager	34.8%
Broker or dealer	0.0%
Insurance company	30.4%
Bank	0.0%
Other	13.0%

Table 2: Service area scores

Service area	Deutsche Bank	India Average	Difference
Relationship management & client service	6.58	6.55	0.03
Fees & value delivered	6.47	6.43	0.04
Settlement	6.61	6.55	0.06
Asset servicing	6.62	6.53	0.09
Handling non-domestic securities	6.61	6.45	0.16
Reporting	6.52	6.44	0.08
Technology	6.51	6.47	0.04
Fund accounting & valuation	6.63	6.32	0.31
Trustee services	N/A	5.49	N/A
Reputation & asset safety	6.69	6.53	0.16

Kotak Mahindra

Kotak Mahindra has generally performed well in the survey: exceeding the market average across seven out of eight of the service areas which it covers. Accounting for a little over a quarter of weighted responses, the bank received the highest score of all the providers for Technology (6.65 out of 7), 18 basis points above the market average for this service area. Client comment supports this rating, with at least one client specifically highlighting Technology as Kotak Mahindra's strongest service area.

Other areas where scores were particularly promising were Reporting, where the bank again achieved a higher score than all its competitors (6.57 out of 7), and Reputation and Asset Safety (6.65 out of 7). Its staff were described as consistent and knowledgeable, particularly with regard to remaining informed about local regulations.

Whilst still receiving a respectable 6.34 (out of 7) for Handling Non-Domestic Securities, this was Kotak Mahindra's lowest score both in terms of averages across the service areas, and in terms of its position compared to the market average (-0.11).

Overall, Kotak Mahindra gained positive feedback across the survey, receiving strong scores of at least 6 out of 7 for all categories. ■

Table 1: Client breakdown

Asset manager	100.0%
Mutual fund manager	0.0%
Broker or dealer	0.0%
Insurance company	0.0%
Bank	0.0%
Other	0.0%

Table 2: Service area scores

Service area	Kotak Mahindra	India Average	Difference
Relationship management & client service	6.61	6.55	0.06
Fees & value delivered	6.53	6.43	0.10
Settlement	6.59	6.55	0.04
Asset servicing	6.62	6.53	0.09
Handling non-domestic securities	6.34	6.45	-0.11
Reporting	6.57	6.44	0.13
Technology	6.65	6.47	0.18
Fund accounting & valuation	N/A	6.32	N/A
Trustee services	N/A	5.49	N/A
Reputation & asset safety	6.65	6.53	0.12

Standard Chartered

Standard Chartered performed very well across most of the survey areas, exceeding the market average for 8 out of 10 categories. The bank performed particularly well in Trustee Services, where its score of 6.75 out of 7 was a full 126 basis points above the market average. While this generally comes low down on the list of priorities for clients as a whole, it's possible that Trustee and Administrative Services feature more highly in the purchasing decisions of Standard Chartered clients.

While the bank's highest overall score of 6.82 (out of 7) related to Fund Accounting and Valuation, which was ranked as 8 (out of 10) in terms of overall client priorities, Standard Chartered also received the highest score of all providers for Fees and Value – an area that clients of other providers highlighted as requiring improvement, and also one where clients in general are tough to please.

Client comments for Standard Chartered largely reflected the typically high scores, with one client declining to provide any area for improvement, stating they were "happy with existing services." The bank's response time, competency and "knowledgeable corporate action team" were also mentioned positively.

The bank's lowest score (6.25 out of 7) was received for Reporting, which was 0.19 points below the market average. This is perhaps reflected in the comment of one client, who suggested that the bank generally needs to "be more flexible".

Table 1: Client breakdown

Asset manager	0.0%
Mutual fund manager	38.0%
Broker or dealer	0.0%
Insurance company	0.0%
Bank	0.0%
Other	62.0%

Table 2: Service area scores

Service area	Standard Chartered	India Average	Difference
Relationship management & client service	6.61	6.55	0.06
Fees & value delivered	6.59	6.43	0.16
Settlement	6.58	6.55	0.03
Asset servicing	6.63	6.53	0.10
Handling non-domestic securities	6.67	6.45	0.22
Reporting	6.25	6.44	-0.19
Technology	6.53	6.47	0.06
Fund accounting & valuation	6.82	6.32	0.50
Trustee services	6.75	5.49	1.26
Reputation & asset safety	6.48	6.53	-0.05

Its score for Reputation and Asset Safety, which was regarded as the second most important client priority, was 0.05 points below the market average, but given that its score here remains well above 6, this does not provide any cause for concern. Overall, Standard Chartered performed well, obtaining scores of at least 6.25 (out of 7) across all service areas. ■

Other banks

Two other institutions – HSBC and ILFS – received responses from a few clients, but the number of responses obtained for each institution was not sufficient to warrant individual profiles. Together, both banks accounted for 4% of the total weighted responses.

Both banks' performances were mixed. HSBC had the distinction of obtaining the highest score of all providers for Reputation and Asset Safety, but was also the only provider to receive scores below 5 out of 7 (for Asset Servicing). However, the number of responses does not allow for any definitive judgment.

ILFS was the only provider to receive full marks (7 out of 7) in a single category: namely Handling Non-Domestic Securities. However, the banks' collective average scores were below the market average for 8 of the 10 categories. This is reflected in its results for Technology, where it received the two lowest individual scores, placing it 1.97 points below the average. Taken together, the banks' collective average was over 100 basis points below the market average across 4 of the 10 categories. Given the small number of responses they received, however, there is little that can be inferred from this result, other than muted enthusiasm from those clients who responded on their behalf. ■

Table 1: Client breakdown

Asset manager	50.0%
Mutual fund manager	0.0%
Broker or dealer	50.0%
Insurance company	0.0%
Bank	0.0%
Other	0.0%

Table 2: Service area scores

Service area	Other banks	India Average	Difference
Relationship management & client service	6.0	6.55	-0.55
Fees & value delivered	5.25	6.43	-1.18
Settlement	5.29	6.55	-1.26
Asset servicing	4.85	6.53	-1.68
Handling non-domestic securities	6.7	6.45	0.25
Reporting	5.5	6.44	-0.94
Technology	4.5	6.47	-1.97
Fund accounting & valuation	5.78	6.32	-0.54
Trustee services	6.0	5.49	0.51
Reputation & asset safety	6.38	6.53	-0.15