FINANCIAL INTERMEDIARIES ASSOCIATION OF INDIA

SEPTEMBER 2015

Common Voice of the Distribution Industry

Get complete news & updates on the financial products distribution industry and the latest happenings at FIAI in our monthly newsletter - FIAI Diary

FIAI
FINANCIAL INTERMEDIARIES ASSOCIATION OF INDIA

DIARY

SEPTEMBER, 2015 FOR PRIVATE CIRCULATION

WELCOME

The Global equity markets were in a tizzy last month as growth concerns and currency devaluation in China affected all the global markets including India. Yet most of the Global and Indian institutional investors still continue to be positive on India allocation given its growth story & relative undervaluation in the peer group and thus our markets continued to attract inflows. Indian domestic Institutional players especially Mutual Funds now are emerging to be the bigger players and are continuously net positive investors in the markets. The MF Industry continued to have positive flows last month too inspite of high market volatility.

The Report of the Committee set up by Govt of India to recommend measures for curbing mis-selling and rationalising distribution incentives in financial products has been released and is currently being debated in the Industry. FIAI had and will continue to engage with the Committee for suggesting growth measures and for the welfare of all stakeholders in the Industry.

FIAI Board met last month for a day-long session to review the current progress of the year and lay down a five-year plan for Vision 2020 for FIAI. The Board laid down the Vision 2020, the road map and key priorities to reach its goal.

Client Associates joined FIAI as a new member. We extend a warm welcome to them in the FIAI family and hope by their joining FIAI will become an even stronger body.

Gurpreet Singh

Principal Consultant - FIAI

ABOUT FIAI

Financial Intermediaries Association of India (FIAI) was formed as a financial distributors' body to strengthen the cause, development, education and progress of the industry. FIAI's endeavour is to bring all the national & regional players like National Distributors, Banks and IFA Associations on one platform to pursue the industry development and education agenda.

Some of the key objectives of FIAI are to promote and develop the Indian financial intermediary industry on professional, healthy and ethical lines and to enhance and maintain standards in all areas of operations and to work towards protecting and promoting the interests of financial intermediary and their members

THE KEY OBJECTIVES OF FIAI ARE:

INDUSTRY DEVELOPMENT:

Promotion & development of the Financial Distribution Industry on professional, healthy and ethical lines.

INDUSTRY STANDARDS:

To ensure, promote and maintain a high professional and ethical standards in all areas of operation of financial intermediaries and their members and to enhance and maintain standards with a view to protecting and promoting their interests.

SUGGESTIONS:

Engaging with and proposing suggestions & initiatives to the industry players, associations and regulators for the growth of the industry.

TRAINING & EDUCATION:

Sharing of knowledge and giving a forum for enlightenment & exchange of ideas within the industry.

ENGAGING OTHER STAKEHOLDERS:

Actively engaging with certification bodies including NISM and FPSB for distribution to agree professional standards and accreditations for financial advisors in India and to drive its implementation across the intermediary fraternity.

SUMMARY OF THE REPORT OF THE COMMITTEE TO RECOMMEND MEASURES FOR CURBING MIS-SELLING AND RATIONALISING DISTRIBUTION INCENTIVES IN FINANCIAL PRODUCTS

FIAI had actively contributed to the Committee which was set up by Government of India to recommend measures for curbing mis-selling and rationalising distribution incentives in the financial products. The report recommendations are out while they are being debated on some of its positives and yet many in the Industry believe it could have been better. FIAI will be sending some more useful suggestions to the Committee. The summary of the report is given below:

Key Recommendations of the Committee

The summary of recommendations is as follows:

1. Regulation of financial products must be seen in terms of the product function and not form. These functions (for the purpose of this committee) are: Insurance, Investment and Annuity.

2. The lead regulator, according to function, should fix the rules of the game. In bundled products, the lead regulator for the function of the sub-part must fix rules of the game.

3. Investment products and investment components of bundled products should have no upfront commissions.

4. All investment products, and investment portions of bundled products, should move to an Assets Under Management (AUM) based trail model.

5. Upfront commissions on pure insurance products and pure risk portions of bundled products should be allowed, and should be decided by the lead regulator since pure risk is a difficult product to sell.

6. Financial products should have flexible exit options. The cost of exit must be limited. The current rules as decided by Securities and Exchange Board of India (SEBI) for mutual funds and Insurance Regulatory and Development Authority of India (IRDAI) for Unit Linked Insurance Plans (ULIP)s are robust. The same principles should govern surrender and lapse costs in traditional plans, and form the basis for future products as they are innovated by the industry.

7. The costs of surrender for each product should be reasonable. After deduction of costs, the remaining money should belong to the exiting investors.

8. Lapsation profits, or profits from exit charges, if any, should not accrue or be booked by product providers.

9. At the point of sale, returns should be clearly disclosed and should be a function of the amount invested. Returns in bundled products should be shown on the invested amount.

10. At the point of sale a one page disclosure form that both the customer and the seller sign off on should be included. The disclosures should be in a manner that an average customer can understand what the product costs, what the benefits are and for how long should the customer hold the product.

11. On-going disclosure should show historical returns as an average annual number based on the Internal Rate of Return (IRR) of the product. The norms of this disclosure for investment products should follow the rules set by the lead regulator.

12. Machine readable disclosures enable creation of web-based tools and mobile apps that help consumers make smarter choices in the marketplace and as such all disclosures should be machine readable. Machine readable does not mean soft copy. Machine readable is when data can be processed by a computer for further analysis and interpretation. Comma Separated Values (CSV) is a basic example of machine readable.

13. For similar products, there should be a similar structure with regard to service tax, stamp duty and rural and social sector norms.

14. Similar products should have a similar free look-in period.

15. Regulators should create a common distributor (including employees of corporate agents) regulation. Each regulator may add rules specific to products regulated by them.

16. Regulators should create a single registry of all distributors. Anybody facing the customer should be registered. The registry should identify each individual distributor with a unique number. The registry should have the past history of regulator actions and awards for each individual distributor. Strict penalties should be defined for distributors who are not registered.

Generic Recommendations

1. **Going forward, in order to bring uniformity and proper oversight, the function should decide the regulatory framework.** This means that, IRDAI and PFRDA should harmonise their investment regulatory function with that of the lead in- vestment regulator SEBI. IRDAI should take the lead on insurance and annuity function. With a base uniformity founded on function, IRDAI and PFRDA should have additional regulations related to the function only to the extent they are necessary for the specific needs of products regulated by them. For instance, in case of IRDAI and PFRDA, these could be on account of products being closed-end and of longer tenure.

2. In order to ensure that differential regulatory norms do not favour any particular financial product, **the redress available to consumers should be of same high quality** across the sector regulators to ensure consumers of products under a particular regulator are not placed at a disadvantage.

3. **Enforcement should be strengthened** around manufacturers over payment of com- missions and fees over and above the prescribed limit to the distributors.

4. **Personal information** of the consumer should be protected.

5. Regulators should require financial service providers to follow norms related to **suitability, documentation of the sales process** and independent audit process for the same.

6. In case there are **additional services** provided to the customer, these should be articulated clearly. Charges, if any, on this account should be under the overall cost cap that is fixed by the regulator.

7. **For similar products, there should be a similar structure with regard to Service Tax, Stamp Duty and rural and social sector norms.** Like in the case of Applications Supported by Blocked Amount (ASBA) for retail investors in IPO markets, mutual fund NFOs should also have an ASBA process.

8. **Financial products are advised products** since average people are not able to make the needed calculations involving real return, time value of money, tax impact and the IRR. **Over the long term, Indian markets should be guided to an advisory model where customers seek advisors, and remunerate them directly for holistic portfolio advice, plus the Over the Counter (OTC) model where customers purchase products over the counter without any intermediation.** In this world, product provider led commissions will not be permissible, and advisors will function under a regime of higher fiduciary standards.

9. Banks are fast emerging as major distributor of financial products. Banks and other institutions tend to over-sell (and as a result could often mis-sell) products belonging to their group companies. **The regulators may consider putting additional disclosures requirements** on banks where they are explicitly required to disclose (i) the products that originate from their group companies as such and (ii) the comparable products as comparison when selling products originating from their group companies. Each of the regulators should regulate the distributors for products which are under their mandate. For example, SEBI should regulate the banks directly for distribution of products regulated by it.

10. **There is an urgent need to bring the distributors, and their sales employees (and sub brokers), under a regulatory framework.** (SEBI has recently issued regulations for advisors but no regulations exist for distributors). **All distributors, across regulators, along with their sales employees, should be assigned a unique number so that monitoring, surveillance and enforcement becomes unified and simpler.** They should be subjected to detailed regulations incorporating rules, educational qualifications, entrance exams, code of conduct etc. There should be a combined database of all distributors across all financial products. The sector regulator can impose additional conditions on their distributors. Also, the database of customers of the distributors should be available for inspection by the regulators and for customers who are shopping for a distributor.

11. **Ultimately, proper product selection would improve and mis-selling would decline if investors become more financially literate. The Government should step up its efforts to improve**

financial literacy among Indian households. One area of focus should be a powerful, multi-lingual financial education website. Additionally, as has been proven, investor education seminars being conducted by several bodies and companies are very ineffective, and the focus should therefore shift to financial education in schools, colleges and places of employment. Each of the regulators should implement a system of impact assessment of financial literacy actions. These should not be judged based on number of programs conducted or attendance.

12. Tax benefits should be given on function and not form. Since the government wants to encourage insurance penetration, tax breaks should be given on pure risk mortality and the treatment of the investment part should be harmonised across the different forms of the product across regulators.

13. Despite tax breaks for **insurance,** pure insurance products are not promoted. While online sales have helped informed customers purchase these products, insurance for purely protection purpose needs to be mass scaled. **This would require greater effort in rural areas and for this all possible tools including financial literacy and awareness campaigns and special distribution incentives should be considered.**

Mutual Funds Related Recommendations

Rules on selling and commissions in the mutual fund industry have been under a focused regulatory eye for just under a decade. In 2006, when the new issue related expenses of 6 per cent were removed on open ended funds to more recently when the market regulator nudged the industry association to stop upfronting of trail commissions in 2015, there has been a consistent road on which the regulator has traveled. In terms of product structure, mutual funds now have all costs that sit under one head - the annual expense ratio. Costs are fungible under this head with the market free to price various costs as it deems fit. Investors find it easy to compare across products to search for the cheapest fund, other things being equal. Machine readability of disclosures and the data feed that AMCs give to third party analysts allow sellers, advisors and retail investors to compare across products across various attributes such as asset allocation, costs, returns, risk and portfolios.

Product Structure

1. The benchmarks should be made more relevant than they are today. Schemes should be periodically tested to see if the asset allocation is conforming to the benchmarks chosen.

2. Similar schemes from the same fund house should be removed. Some of these were launched in the NFO boom to harvest the 6 per cent marketing cost. Such **duplicate funds should be merged** with others in the same fund house since they confuse investors.

3. The regulator should ensure that the mutual funds are true to label. This means that the investment mandate in the information memorandum should be reflected in the active portfolio of the fund.

4. The regulator should consider measures to **encourage retail participation in ETFs.**

5. The regulator should put in place a **free look policy** and define the period for which it will hold.

Costs and Commissions

1. The **cost caps within a overall TER should not be fungible.**

2. **Upfronting of commissions should be totally removed.** There is a current cap of 1 per cent that comes from the fund house capital or profits. This too should be removed.

3. **Distribution commissions should only be paid as level or reducing AUM based trail.** In the case of lumpsum investment, or upon termination of a systematic investment plan, the trail commission should be declining (or nil after a specified period of time).

4. The extra commission in B15 should be removed and a level playing field be created in the country. Manufacturers and distributors should on their own tap such unexplored markets to increase their sales and market share.

5. No category of mutual funds should be exempt from the zero upfront (when it is put in place).

6. Distributors should not be paid advance commissions by dipping into future expenses, their own profit or capital.

7. Competition has not reduced costs much below the expense ratio that was fixed when the AUM of the industry was much lower. **The regulator should**

READING CORNER

lower the cost caps as the AUM rises over time.

Disclosures

1. **On no account should sales of new fund offers happen pitching the product as a "cheap" product** that the investor is getting "at par" value of Rs.10. The regulator should impose heavy costs on distributors reported as doing this.

2. The past returns of the scheme being sold, along with the benchmark returns, should be disclosed to the investor at the time of sale. Customers should be disclosed a range of past returns appropriate to the product tenure and should include returns of last 6 months and annualised returns since inception, and 2 year rests thereafter.

3. **Trail commissions on mutual funds should be disclosed at the time of sale.**

4. Disclaimer presently talks of a scheme's performance being subject to market risks. **Customers should be informed that in addition to market risk, the performance is also subject to fund house/manager's competence.**

5. **Any change in scheme fund manager should be disclosed to all investors.**

6. **The AUM rankings published by the AMCs on their websites, Information Memorandum etc.** are presently combined for all products, thereby giving a misleading picture. For retail products, the AUM rankings should be shown only for the retail AUM.

ACTION AT FIAI

FIAI BOARD MEETING

FIAI Board met last month to review the current progress of the year and lay down a five-year plan for Vision 2020 for FIAI. It was a daylong session where the Board laid down the Vision 2020 and the road map and key priorities to reach its goal. Necessary Board formalities and some other important decisions were also taken.

FIAI WELCOMES NEW MEMBER

Client Associates joined FIAI as its twenty sixth member. We welcome them and hope by their joining FIAI will become an even stronger body.

Client Associates™
Private Wealth Management

About Client Associates

Client Associates (CA) is India's First "Multi Family Office Firm" founded by Senior Private Bankers to provide a professional platform of Private Wealth Management services in India. CA was founded in May, 2002 and operates out of seven offices at Gurgaon, New Delhi, Mumbai, Bengaluru, Kolkata, Chennai and Hyderabad.

INDUSTRY UPDATES

KEY DEBT MARKET INDICATORS

DATA FOR MONTH: SEPTEMBER 2015

Benchmarks	As on 31- Aug -15	As on 31-Jul-15	As on 31-May-15	Change (Month)	Change (Quarter)
364 Day Tbill	7.54%	7.58%	7.81%	-0.04%	-0.27%
91 Day Tbill	7.40%	7.44%	7.80%	-0.04%	-0.40%
10-year Benchmark	7.78%	7.81%	7.64%	-0.03%	0.14%
3 Months Certificate Of Deposit (CD)	7.48%	7.58%	7.90%	-0.10%	-0.42%
3 Months Commercial Paper (CP)	7.77%	7.73%	8.25%	0.04%	-0.48%
AAA Corp Yields - 1 Yr	8.40%	8.40%	8.60%	0.00%	-0.20%
AAA Corp Yields - 3 Yrs	8.50%	8.55%	8.50%	-0.05%	0.00%
Bank Rate	8.25%	8.25%	8.50%	0.00%	-0.25%
RBI LAF-Repo rate	7.25%	7.25%	7.50%	0.00%	-0.25%
RBI LAF-Reverse Repo rate	6.25%	6.25%	6.50%	0.00%	-0.25%
Foreign Exchange Reserve($ bn)	351.92	353.46	352.47	-1.54	-0.55
Brent Crude Oil ($/bbl)	48.32	52.44	61.42	-4.12	-13.10
Gold ($/oz)	1135.00	1098.40	1191.40	36.60	-56.40
US Fed Funds Rate	0.25%	0.25%	0.25%	0.00%	0.00%
US 10-yr Gilt	2.22%	2.20%	2.13%	0.02%	0.09%
CRR	4.00%	4.00%	4.00%	0.00%	0.00%

Source: Various (BSE, NSE, SEBI)

DOMESTIC MARKETS - KEY INDICES

% Returns as on 31st August, 2015.

Indices	Close	1 Month	3 Month	1 Years	3 Years	5 Years	10 Years
S&P BSE Sensex	26283.09	-6.51	-3.33	-1.32	14.67	7.62	12.77
CNX Nifty	7971.30	-6.58	-3.22	0.21	14.87	7.81	12.68
S&P BSE 100	8120.97	-6.15	-2.69	1.29	15.64	7.49	12.72
S&P BSE 200	3368.42	-6.14	-2.35	4.13	16.61	7.60	12.65
CNX 500	6669.35	-6.15	-1.91	4.81	17.32	7.70	11.98
CNX Mid Cap	13059.10	-4.88	1.28	17.35	22.72	8.26	13.40
S&P BSE Small Cap	10971.27	-7.27	-0.69	9.04	18.91	4.99	6.23
S&P BSE Midcap	10734.42	-4.78	2.48	21.46	23.67	9.40	10.06
CNX Nifty Junior	20095.75	-3.45	3.55	19.69	26.65	10.89	14.74

Source: BSE & NSE. Returns are calculated on absolute basis for less than one year and on CAGR basis for one year or more.

DOMESTIC MARKETS - KEY SECTORAL INDICES

% Returns as on 31st August, 2015.

Indices	Close	1 Months	3 Months	1 Year	3 Years	5 Years	10 Years
S&P BSE Auto	17865.27	-6.50	-4.05	3.28	24.58	15.11	18.21
S&P BSE Bankex	19637.15	-8.66	-4.92	9.00	19.47	9.72	15.91
S&P BSE FMCG	7787.92	-4.25	1.08	6.38	13.87	16.46	18.85
S&P BSE Healthcare	17961.78	5.36	11.11	34.76	33.69	25.10	19.36
S&P BSE Metal	7446.07	-14.10	-21.71	-38.98	-8.40	-13.56	1.42
S&P BSE Oil & Gas	8878.00	-10.34	-7.66	-20.48	2.64	-2.49	9.20
S&P BSE Realty	1260.66	-9.13	-16.10	-26.83	-5.86	-18.15	NA
S&P BSE TECk	6096.66	-1.97	1.16	8.90	23.30	12.06	11.44
CNX Consumption	3424.40	-6.99	0.12	9.53	20.93	14.15	NA
CNX Infra	2952.60	-10.46	-7.83	-5.13	9.74	-3.06	5.31
CNX Media	2328.35	-5.05	10.87	22.85	21.12	5.15	NA
CNX Dividend Oppt	1893.25	-7.53	-5.80	-7.11	8.16	5.26	NA

Source: BSE & NSE. Returns are calculated on absolute basis for less than one year and on CAGR basis for one year or more.
**Return for CYTD (Year To Date) is calculated on absolute basis.*

GLOBAL MARKETS – KEY INDICES

% Returns as on 31st August, 2015.

Indices	Close	1 Months	3 Months	1 Year	3 Years	5 Years	10 Years
Shanghai Composite (China)	3205.99	-12.49	-34.71	44.31	16.12	4.10	10.43
Nikkei 225 (Japan)	18890.48	-8.23	-8.05	22.33	28.80	16.17	4.13
Nasdaq (USA)	4776.51	-6.86	-5.91	4.26	15.91	17.02	8.35
S&P BSE Sensex	26283.09	-6.51	-3.33	-1.32	14.67	7.62	12.77
Dow Jones Ind Avg (USA)	16528.03	-6.57	-8.24	-3.32	8.08	9.99	4.69
All Ordinaries (Australia)	5222.08	-8.09	-7.41	-7.12	6.37	2.90	1.65
FTSE 100 (UK)	6247.94	-6.70	-9.82	-8.38	3.05	3.09	1.61
Hang Seng (Hong Kong)	21670.58	-12.04	-21.10	-12.35	3.61	1.00	3.60
Bovespa (Brazil)	46625.52	-8.33	-14.03	-23.81	-6.51	-7.01	5.11
RTS Index (Russia)	824.68	-3.98	-15.20	-30.78	-15.97	-10.74	-0.98

Source: bloomberg.com. Returns are calculated on absolute basis for less than one year and on CAGR basis for one year or more.
**Return for CYTD (Year To Date) is calculated on absolute basis. Sorted on basis of 1 Year returns.*

INSTITUTIONAL ACTIVITY

(Rs. Crores)

	Aug-2015			01-Jan-15 To 31-Aug-15		
	Debt	Equity	Total	Debt	Equity	Total
FII	-646.90	-16,877.27	-17,524.17	38,703.90	27,522.30	66,226.20
Mutual Funds	24,140.60	10,532.90	34,673.50	3,28,267.90	45,711.40	3,73,979.30

FOREX *Currency movements against INR*

Source: bloomberg.com

	31-Aug-15	31-Jul-15	31-May-15	31-Aug-14	% Change (Month)	% Change (Quarter)	% Change (Year)
1 US$	66.48	64.13	63.82	60.50	-3.53%	-4.00%	-9.00%
1 Euro	74.50	70.16	69.85	79.86	-5.83%	-6.24%	7.19%
100 Yen	54.75	51.55	52.02	58.27	-5.84%	-4.99%	6.43%
1 Pound	102.31	99.84	98.63	100.35	-2.41%	-3.60%	-1.92%

MUTUAL FUND MONTHLY DATA

Amount in Rs. Crore (Source: SEBI)

TYPE		AS ON 31ST JULY 2015			FOR JUNE 2015 MONTH (RS.CR.)		
		No. of Schemes	No. of Folios	Assets (Rs. Cr.)	Sales (Rs. Cr.)	Purchases (Rs. Cr.)	Net Sales (Rs. Cr.)
A	**Income/ Debt Oriented Schemes (i+ii+iii+iv)**	**1,596**	**73,40,577**	**8,73,688**	**45,84,358**	**47,42,302**	**1,58,887**
i	Liquid/ Money Market	54	3,37,897	3,00,738	44,35,025	45,63,062	1,28,510
ii	Gilt	47	64,507	15,610	1,760	2,762	950
iii	Debt (other than assured return)	1,488	69,38,125	5,55,885	1,47,840	1,77,154	29,269
iv	Debt (assured return)	0	0	0	267	906	72
v	Infrastructure Development	7	48	1,455	0	230	230
B i	**Growth/ Equity Oriented Schemes (i+ii)**	**456**	**3,28,58,830**	**3,93,602**	**21,854**	**61,194**	**39,067**
ii	ELSS	55	66,17,228	41,212	973	2,195	971
	Others	401	2,62,41,602	3,52,390	20,881	59,000	38,095
C	**Balanced Schemes**	**26**	**21,29,332**	**34,550**	**1,318**	**9,708**	**8,162**
D	**Exchange Traded Fund (i+ii)**	**49**	**7,00,125**	**13,127**	**4,105**	**2,830**	**1,338**
i	GOLD ETF	13	4,60,850	5,957	250	17	281
ii	Other ETFs	36	2,39,275	7,170	3,855	2,813	1,056
E	**Fund of Funds Investing Overseas**	**31**	**1,38,946**	**2,300**	**208**	**106**	**136**
	Total (A+B+C+D+E)	2,158	4,31,67,810	13,17,267	46,11,844	48,16,139	2,04,643

Source: SEBI

BECOME A FIAI MEMBER

FIAI invites all National Distributors, Banks and IFA Associations to become its members to be able to successfully pursue the objectives of the body in interest of the entire industry & distributors at national level.

Membership Benefits

- FIAI provides an excellent opportunity to participate in the process of building a think tank that puts forth well-researched and independent points of view on topic relevant to the financial products distribution / advisory practice.
- Members will be able to suggest and participate in building of the research subjects and the underlying reports.
- Members will get access to the updates of regulatory and business changes.
- The FIAI members will be privy to our reports immediately prior to submission with regulatory bodies.
- Members will have the opportunity to engage with eminent people and organisations through a range of events.
- Members will be able to reach remote areas by the use of the planned FIAI regional/ zonal offices.
- FIAI will undertake services for promotion of financial business of its members and the development of the securities market.
- FIAI will undertake studies /surveys on important matters and access to such report will be helpful for the business practices of its members.

Registration Process

To become a member, kindly contact us...

CONTACT FIAI

Communicaton Address: #2004, The HUB, Tower 2A, 10th Floor, One Indiabulls Centre, 841 S. B. Marg, Elphinstone (W), Mumbai - 400 013

Registered office: Navjivan Society, Office No. 1209, Building No. 3, Lamington Road, Mumbai - 400 008. Website: www.fiai-india.org

Suggestions & feedback: Email: info@fiai-india.org

FIAI Members

Financial Intermediaries Association of India

MEMBERS