

India's MF industry one of the costliest globally: Ex-Sebi chief UK Sinha

The industry needs to be prepared for a potential disruption in the distribution space, says the former Sebi chief

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The asset management industry in India is one of the most expensive globally and there is scope for bringing down the cost of investing, said U K Sinha, former chairman of the Securities and Exchange Board of India (Sebi).

While delivering his speech as the chief guest at *Business Standard* Fund Café 2018, Sinha said due to high costs, we are seeing assets moving away from actively managed funds to exchange-traded funds (ETFs).

“Very serious focus on cost reduction is required, without which the industry may face some serious bumps,” he said. Sinha added high cost was one of the reasons why pension money was going towards passive funds.

“Even when the EPFO (Employees’ Provident Fund Organisation) started investing in the markets, it preferred index funds, not active schemes.”

Globally, also, trillions of dollars were moving from active funds to passive funds, said Sinha adding that the same trend could play out in India.

Upendra Kumar Sinha, former chairman of SEBI

Sinha cited reports of industry players not adhering to the commission ceiling set by the industry body

Association of Mutual Funds in India (Amfi). “There is a circular from Amfi asking the industry to observe self-discipline. There are also reports that they are not being seriously implemented,” he said.

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Sinha added during his tenure at Sebi and even now, there was a serious debate on whether or not the market regulator should set a ceiling for commissions.

“If Sebi does it, the rules will be etched in stone. It is better that the industry lowers the cost on its own,” Sinha, who served as Sebi chairman for six years, said.

He said some equity schemes were paying commissions as high as 3 per cent and during his time more than 1 per cent commission was the order of the day. Sinha demitted office in February 2017.

“I hope good sense will prevail and in the long-term interest there will be some movement towards a situation where there is focus on reducing costs,” he added.

Sinha praised the growth of the domestic mutual fund (MF) industry in the past five years, adding that there was a potential for the industry assets to grow five times in the next five years.

“Systematic investment plans (SIPs) are growing fast, equity assets are growing fast, scheme performances have been good, the industry has many reasons to be proud of,” he said.

“While the entire financial sector is doing well, the success of the domestic asset-management industry is being talked about not only across sectors in India but also outside,” Sinha said.