

## PROFILE OF IFA ( Independent Financial Advisor )

IFAs are typically small to medium size financial advisors whose **primary role is to advise** their clients towards investments in mutual funds and other financial products, and also execution of the same for their clients through their respective individual ARN Nos. for mutual fund Investments.

IFA community consists of individuals with a mix of educational qualification including graduates, post graduates and with professionals qualifications like CAs, MBAs, CFAs, CFPs, Engineers. It also includes Ex-servicemen and ex bankers. IFAs endeavour to provide independent advice to their clients by keeping their client's interest as the main purpose of the service and also by regularly improving their skills and knowledge on the financial products that they advise their clients on. IFAs are generally not working exclusively for one product provider or bank. He offers solution from a range of financial products and providers.

Due to this very unique nature of the dual role of independent advice and also of the execution part, the classification of such individuals as IFAs has been done by the manufacturers or AMCs to distinguish them from the other distributors, who constitute banks and institutions.

IFAs have a very **different business model** as compared with other intermediaries such as banks and national level distributors. IFAs in particular have more **personalized relationships** and do a lot more of hand holding of the client as compared to the other categories of intermediaries. They invest a lot of time in educating investors regarding financial markets and various financial products available to them

The retail investment market in India is characterized by low level of knowledge and financial capability. As a result the consumers are unaware of the different investment products available, the long-term nature of these products and their needs. Therefore, they rely heavily on the services provided to them by advisors who give them a personalized solution most suitable to their needs. For an IFA to building a successful long-term business he needs to gain the investor's confidence in his competency and his trust that he acts in the client's interest, it is only then that he will be able to retain the clients and add more clients on the basis of referral their existing clients. The dynamism of the relationship between a client and an IFA revolves around the concept of trust and fiduciary relationship. This reflects that there is interdependence between the service provider acting as a trusted advisor and the client.

The IFA community covers the entire gamut of the investment community, which involves retail clients, high net worth individuals (HNIs), corporate, trusts and financial institutions. They are present all across the country in big cities and small cities. Almost all IFAs will have a combination of two or more of these client types and they serve these clients in different ways as per the needs of that client.

For some large corporate, HNIs, etc. the advisory role of an IFA may be limited but still be there in some form or the other and the focus may be more towards execution whereas for some retail, HNI, trusts, companies, etc the role of an IFA may only be advisory in nature and the execution may only be incidental to that advice or a combination of the two scenarios for some clients.

The BCG Report on *"Equity Mutual Funds: Charting your Course with a Compass"* of June 2010 (BCG Report) indicates that nearly 100,000 IFAs are registered with AMFI and nearly 80 percent of IFAs sell other financial products in addition to mutual funds - for example, life insurance, small savings, general insurance. Of the 100,000 IFAs registered many are dormant and inactive. Most IFAs typically sell mutual funds of three or four asset management companies (AMCs).

The national and regional distributors typically have a more organized and formal setup compared to IFAs with many of them having their own branch network, sales force, and online channel. In addition, many of them aggregate some of the sub-brokers' business.

With regard to distribution of the mutual funds, on the customer front, IFAs service 30 to 35 percent of retail investors, while private and foreign banks service nearly 40 to 45 percent of the HNI investments **IFAs are dominant in smaller cities and 'retail' segments, whereas banks dominate in top cities and the HNI segment.** The other interesting aspect concerned the prevalence of channels of distribution by location and customers. On the location front, not surprisingly, IFAs are much larger in smaller towns. On the customer front, IFAs service 30 to 35 percent of all retail investors (less than 5 lakh), while private and foreign banks service nearly 40 to 45 percent of the HNI investments. Therefore, IFAs play an **important role** in the retail market.

With the advent of the no load regime, the number small IFAs reduced which has resulted in the decrease in the level of penetration in the market by investors as the business model of the small IFA's became unviable. The introduction of the B-15 incentive has given a fillip to IFAs in smaller town and cities.

It is submitted that clients are only superficially aware of investment products. A lack of consumer knowledge has resulted in these investments being '**push products**', i.e., products which need to be brought to the knowledge of the investors and this process is undertaken by IFAs wherein IFAs try to educate the clients. The role of IFA is not merely to cherry pick the financial products and suggest it to the client. Rather, the IFAs are compelled by their business model to conduct an in depth study about the needs of the client and risks and rewards associated with each products before making a recommendation to the client.

The retail investment market is characterised by poor investor awareness and low levels of understanding. The investors are often unaware of their need for particular type of products. Even if they are aware of their needs, the long-term nature of some investment products deters some investors from buying because they find it hard to determine whether it is worth it, thereby implying the benefits of these investments have to be clearly outlined to the investor.

Generally, it is more expensive for a distributor to reach out to Individual investors than to a corporate investor. While an average retail investor folio has about 35,000 INR of assets, an average corporate investor's folio has 59 lakhs INR of assets. Hence a distributor will need to reach around 170 retail investors to get the same AUM as a single corporate folio, which acts as a relative disincentive to chasing and capturing individual retail investors. (Source:PWC Report 2012). It is worthwhile to keep in mind that mutual funds were originally aimed to provide individual investors with the opportunity to make long term capital market investments.

Despite the higher upfront cost of acquiring a retail investor, the sticky nature of retail investors indicate that retail investors break even and are actually more profitable than corporate clients in the long run. To acquire a greater proportion of individual investors one would require an upfront distribution fee due to cost that this process inherently entails.

Most of the investments in this market are currently the result of an advised process which the IFA in urban and rural cities does door to door. The process typically includes PAN Card application, bank account opening, capital gains statements, Income tax queries etc. among other things. Investors who are advised by IFA's tend to build a long term relationship with them as they depend largely on the advice given to them. Therefore, a

relationship is built based on trust and the IFA becomes a trusted advisor to the investor. The IFA raises the investor's awareness of needs and helps him to make the decision to take action to address that need. All this requires investment of time and effort which need to be rewarded for an IFA to sustain his business. To broad base the distribution there has to be a large fleet of distributors on the ground to ensure optimum penetration.