FIFA Perspectives

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FIFA's MFU initiative goes national

FIFA gets over 450 IFAs to give their feedback on MF Utility

Yogesh Sharma, Y S Capital Mumbai; Director - FIFA

FIFA along with AMFI have completed presentations on MF Utility in 6 key cities across the country, and have obtained valuable feedback from over 450 IFAs who participated in these sessions, which were steered by John Mathews, Sr VP & Head Client Services, HDFC AMC. Read on as Yogesh Sharma gives us a brief on the successful completion of the first 6 presentations on this very important business initiative.

With a view to creating greater awareness amongst the IFA community regarding the basic features and functionalities of the MF Utility platform, FIFA along with AMFI, has already organized nationwide presentations on the MF Utility platform across major cities as per the below schedule. More than 450 of FIFA members and IFAs across various parts of the country attended the very detailed presentation by Mr. John Mathews, Sr. VP and Head - Client Services at HDFC AMC. He is one of the members of the AMFI Committee on the MF Utility Platform or MFU as is fondly called by Mr. John Mathews. FIFA members and fellow IFAs gained very good insight on the workings of this platform and also gave very practical and knowledgeable feedback from an IFAs perspective on the working of the Platform from their day to day experience.

Mr. John Mathews commented "The MFU platform can be a game changer for the industry. Once fully operational, our aim is to minimize many of the operational pain points of today thus bringing greater efficiency in operations, mitigate risk and reduce costs. The platform should also be a facilitator for growing the business especially in smaller towns and cities, where distributors can leverage upon the advantages that MFU offers. The best example of adoption of technology of such a scale is the exchanges in our country. Look at how they have scaled, become efficient, virtually paperless, been transparent and reduced costs. On hindsight, it can be categorized as a nation building exercise. It is our attempt to create an efficient "order routing mechanism" which will help our industry grow and hopefully be paper free over time. I am enthused by the responses so far from the distribution community."

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Place	Date Held	Time	FIFA Member in Charge
Bangalore	08th April 2013	11.00 am to 2.00 pm	Mr. Lovaii Navlakhi
Indore	11th April 2013	11.00 am to 2.00 pm	Mr. Vijay Agarwal
Mumbai	12th April 2013	04.00 pm to 6.00 pm	Mr. Yogesh Sharma
New Delhi	15th April 2013	11.00 am to 2.00 pm	Mr. Ravi Kohli
Kolkata	18th April 2013	11.00 am to 2.00 pm	Mr. Brijesh Dalmia
Pune	19th April 2013	04.00 pm to 6.00 pm	Mr. Bushan Mahajan

John Mathews presenting MFU at FIFA's Pune event

This pan India initiative was one of the many Knowledge Sharing Platform initiatives by FIFA and we hope many more regional Associations and fellow IFAs join FIFA to take advantage of all such activities that FIFA undertakes. Now, with the all inclusive Central Executive Committee with representatives from North, South, East, West (excluding Mumbai) and Central zones as well as one compulsory representative from each regional association member being established, there is a much more compelling reason to join FIFA to strengthen the united voice of IFAs and also take advantage of all the knowledge sharing activities being undertaken by FIFA.

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John Mathews in action at FIFA's Kolkata event

The above events were free and open for all FIFA members and special IFA invitees. We can plan on covering some more cities too depending on the availability of Mr. John Mathews, in order to cover as many cities and towns across the country. We at FIFA are trying to get as much feedback as possible from the IFA community to Mr. John Mathews and through him to AMFI so that the Platform develops into a smooth and versatile utility which hopefully streamlines all the day to day problems of the IFA Community.

- Yogesh Sharma, Director FIFA

Create a new business vertical with bonds

Abhenav Khettry, Vyana Wealth, Kolkata

Abhenav has always thought differently, and is often at the forefront of new ideas - traits that have helped him build a sharply differentiated and successful advisory practice, at this young age. This young and active Kolkata based FIFA member shares some thought-provoking insights in this article on how you can build an incremental business vertical with bonds, by targeting a segment of investors who don't go towards debt funds, for various reasons. Read on as he shares his thoughts on this business idea as well as how he thinks this idea can be taken forward by like minded IFAs collectively to really put an icing on the cake - for investors as well as for yourselves.

When we think of fixed income, our thoughts instantly go towards debt funds and company deposits, and we usually recommend either of these, based on the risk profile, tax status and requirements of individual investors. There is another area of the fixed income market, which I think is still largely unexploited - which represents another growth vertical for all IFAs - and that's bonds. I am not just talking about tax free bonds - I am talking of regular company bond issuances and how we can be active in the primary as well as secondary market in order to add more value to our clients and create an additional income stream for ourselves.

Who are our target investors?

There is a set of investors who do not go towards debt funds and who are therefore offered company deposits as an alternative. These could be :

- Trusts, charities, schools etc who enjoy some tax breaks on their income and who need very predictable cash flows to run their institutions
- Senior and very senior citizens - who have a Rs. 250,000 and Rs. 500,000 tax exemption limit and therefore can go for higher coupon fixed income instruments without worrying too much about the tax incidence. I have created bond portfolios of Rs. 25 lakhs to Rs. 50 lakhs each for several senior citizens, depending on the level of their tax exemptions.
- Investors who simply do not want the variable returns from bond funds and prefer a fixed interest, regardless of the tax incidence. We all have seen a number of HNIs who continue to prefer bank deposits for this reason.

Why bonds?

If we compare bonds vs company deposits, bonds score on 3 counts, from an investor's perspective :

1. Lock into longer tenure : Company bond issuances are usually longer tenure - between 5 to 10 years, whereas fixed deposits are 1-3 years. An investor has an opportunity to lock into higher yields for a longer period of time - which, in an environment of gradually declining yields, is a big plus. There are many bond issues which offer either the same coupon as the FD program or sometimes higher. Jyoti Structures for example is offering 14% on their long term bonds while the 3 year FD fetches 12.5%. We keep looking for such interest arbitrage opportunities, and when we find them and offer them to our clients, they are happy with the efforts we take to get them better yields than most other intermediaries. This helps strengthen the relationship.

Create a new business vertical with bonds

2. Liquidity : Compared to a company FD, bonds are more liquid, as they are traded on the exchanges. However, volumes are still low and selling large lots continues to be a challenge. I do have some thoughts on how we can improve this - but, let me share this a little later.
3. Quality of issues : We get very strong companies with high credit ratings issuing bonds. Many of these companies are not present in the FD market. So, if you are looking for high quality names, bonds may offer you more options than FDs.

Simple decision making process

Unlike fixed income funds, where we sometimes see protracted discussions on portfolio characteristics of several funds, outlook on duration, accrual strategies etc, when it comes to bonds, we find much larger amounts get invested much quicker, through a very simple analysis process. It all boils down to only 3 things - who is the issuer, what's the tenure and what's the coupon. Once the investor is comfortable with these 3 parameters, investment decisions - often of substantial amounts - are taken very quickly. From the point of view of productivity of our time, that's a big plus. When it comes to fixed income funds though, the discussions are much longer, and due to the relatively higher number of variables that the investor is not familiar with, the amounts allocated will also be naturally relatively lower.

The key to this business is the secondary market

I mentioned earlier that liquidity is currently a challenge. Though bonds are listed, trading volumes are quite thin and erratic and large retail lots can disrupt prices significantly. On the other hand, when you look at the institutional market, it is very liquid - and continues to be traded over the phone by a handful of active bond market brokers. Large lots change hands, when routed through these active bond brokers. Here is where I think we can create an opportunity for our clients and ourselves, if we think a little differently.

If a few IFAs from each city, who target the kind of clients I mentioned, are able to talk to each other more often, we can exchange information of demand and supply of bonds from our own client bases. As more of us get active, we will be able to match trades and effectively create liquidity for these bonds, without waiting for RBI and the Government to do their bit on enhancing retail interest in secondary bond markets - which they have been looking at doing for quite some time now.

I know some of you may think that this is an idea ahead of its time - but just think about it. If we can create liquidity for bonds, look at the value proposition we can now offer our clients. Especially in a world where we always run a risk of income funds business going direct given the differential NAVs, we need to come up with propositions where we are actually adding value to our clients.

Earnings can be quite healthy

As we collectively become more successful in creating some sort of liquidity which provides great comfort for our clients, we are actually helping ourselves too. The revenue streams from such a proposition can be from three ways:

Create a new business vertical with bonds

1. Upfront commission from the issuer at the time when your investor subscribes to the issue
2. A fee that you charge your client for locating a buyer for the bonds he wants to offload - you can call this a placement fee
3. The difference between the bid and offer prices for the bonds in the secondary market that we collectively create will be split between the two intermediaries who bring the buyer and seller together for the transaction

To conclude

There is a healthy business stream we can build for ourselves by focusing on offering bonds to that segment of investors who don't go for debt funds, for various reasons. The more we get into bonds for this segment, the more we are differentiating ourselves from the plain-vanilla company FD brokers that may approach these investors.

The icing on the cake in this business vertical will come when we are able to work together to create liquidity for bonds through our own secondary market. There is a lot of work to be done on this front, but I think its worth getting started now.

Who says businessmen are not good advisory clients?

Yasir Varawala, Abacus, Investment Advisors Pvt. Ltd., Mumbai

Many advisors believe that businessmen are not a good client segment for advisors - they often value deals (passbacks) more than advice, and those who don't demand passbacks, keep benchmarking financial products against the return they get from their own businesses, and therefore consider financial advice and financial products futile. Yasir Varawala and Mazhar Arif however have built a very successful financial advisory practice with exactly this segment of clients forming the core of their practice. And they have, in the last 10 years, accumulated an AuM in excess of Rs. 300 crores, about 65% of which is in equity, as eloquent proof that doing business with businessmen can be a very rewarding experience for advisors. Read on as Yasir shares with us the insights on how Mazhar and he have built such a successful practice with a client segment that most peers regard as extremely tough.

WF: What led you and Mazhar into financial advisory as a profession?

Yasir: Mazhar and I have always been interested in investments and financial instruments. We were always handling our own investments for quite some time. For some years, we were informally handling investments for family and friends. We then decided to formalize it and get into the mutual funds space.

WF: How would you describe the journey as financial advisors who have seen many market cycles and their ups and downs over the years?

Yasir: We started Abacus in 2004 and it has been a quite a journey - reflecting perhaps the ups and downs of the markets over the last 10 years. It has been a great learning experience for us too. We have been through a couple of big market cycles which have led to our outlook being changed and our knowledge levels deepening.

When you are managing your own money, the risk appetite is different and you are not answerable to people but when you start handling clients' investments and money, you have to meet the objectives of the investors and you cannot go wrong - that's the priority. . We have come a long way since we started.

WF: Can you give us a brief on the current business structure and model ?

Yasir: At Abacus besides Mazhar and me, we have a team of four people. They interact with clients and besides that we have the back office staff. We have a mix of clients- retail clients, HNIs, family owned businesses and some corporates. A majority of our clients are the HNIs, and most of them would be people who run family owned businesses. Our MF AuM would be around Rs. 300 crores out of which approximately 65% would be in equity assets.

Who says businessmen are not good advisory clients?

WF: There is lot of apprehension in the IFA fraternity about doing business with businessmen for two reasons. One is that they believe that trying to be an advisor to a businessman means it boils down to them looking for the sharpest deal available and pass backs. Quality of advice seems less important than the deal. The other factor that seems to play on a lot of people's mind is that businessman keep asking the financial advisors to benchmark returns on the financial instruments vis-Ã -vis the ROI on their own businesses that they run, which often becomes a losing proposition for the advisor. Therefore a lot of people tend to stay away from businessmen and focus on salaried professionals who will value professional inputs from them. How is your own experience in doing business with businessmen?

Yasir: In many cases, businessmen definitely earn more in their own businesses than from mutual fund investments. At Abacus we have had a different experience with our clients. It is not that the businessmen that we deal with make subpar returns as compared to the returns that one gets from the mutual fund space. But the businessmen or the people that we have as clients have realized or have been made to understand the benefits of diversification. They realize that they should not keep all their eggs in one basket.

Another point is that businessmen do make profits from their business but do not really see the profits. They show us the balance sheet and ask us that though they have made profits, they cannot see the money. It is obvious that they are putting money back into their business by increasing the current assets or for expansion. So when they really need the money it is not available in liquid form.

We have made them understand that just as you would expect a dividend or interest from your investments, you should take dividend for yourself from the business. We ask them to invest it in something which is different. It may not give the same returns but it is readily available, especially on a rainy day.

This is also effective from a diversification or an insurance perspective. I can give you an example. We came across a particular person who had to close down his business just because of technological change. He was into a particular business which went outdated for the simple reason that there was a different technology in the market. In some time he realized that he was out of business. He had some stock left, machinery and factory premises. So he had some assets but had no recurring income and was of advanced age as well. His children were into the same business as well, so suddenly they had no source of income from the business. He could have got some money from the real estate that he could sell. But he was in a problem. We made him realize that it is an insurance to take something out of the business and look at other areas like mutual funds or some other financial instruments, which are liquid, which are growth oriented, and which are not connected in any way with their businesses. They may not give the same returns but at least one has something for a rainy day.

I have different experiences with other businessmen as well. There are many businessmen who run profitable businesses and want to invest in property. But it is difficult for them to get out of the cycle of debtors, stock etc. For many such investors, creating a financial portfolio gives them access to liquidity to seize a good deal, when they see one.

The key issue here for us to understand is that most businessmen can relate to these circumstances and do know of somebody in their circle who has gone through some of these experiences - of either fluctuations in their base business or illiquidity of their business assets. They are aware of the situations but when we raise the point with them, they realize it. They then cite instances that they know people who have been in similar situations. We basically touch the right nerve and bring it to their mind. Some of them agree with our suggestions of creating and maintaining a financial portfolio, without really benchmarking it against the return they currently get from their own businesses.

Who says businessmen are not good advisory clients?

There is another key aspect of businessmen, which actually makes them good investors. Businessmen are used to taking risks and are familiar with the ups and downs of business cycles. They have seen the business cycle first hand so they are comfortable taking up some risk even if they know that they can make more money in their own business. Their risk appetite is higher. Their ability to ride through downturns is in many cases higher than an average investor, because they understand downturns better.

WF: Have you come across instances where people value the deal more than advice and how do youtackle that kind of situations?

Yasir: I have fortunately not been in a lot of such situations. These things are sorted out at the first instance itself. Our experience has not been so bad. But wherever we come across such situations we just tackle it by politely refusing. Some of them will not come back but most are with us. It's not easy to get fees - that's for sure. But passbacks, thankfully is not there in our client segment.

WF: Looking back at the last 10 years, what are some of the significant changes you made in your business model to keep pace with the huge amount of change that has happened in the regulations, especially since 2009?

Yasir: When entry load got abolished, we did nothing different at that time. We just continued and let the earnings take a hit as it is not very easy to charge the clients- even today, its not easy. As far as the existing or old clients are there, they are not into the habit of paying.

Then there were many regulatory changes and the due diligence came into play. We have tried to improve the level of our documentation. We have been following the correct processes and not done something incorrect which is the reason the clients are still with us for so many years and through so many business and market cycles.. Basically nothing much has changed - the core is the same.

WF: What are your plans for Abacus over the next three years? How do you propose to deal with the new advisor regulations?

Yasir: We would like to scale up by being more proactive. Regarding the new advisor regulations, we are status quo at the moment as we are exempt from them. There are different views but once we get more clarity from the regulator, we will take requisite action.

WF: As one of the founders of FIFA, who played a very active role in setting up the legal framework for FIFA and getting it off the ground, how do you think FIFA has shaped up and what are some of the next steps that you think you would like to see FIFA taking.?

Yasir: FIFA is only a year old- as we stand today. Many people spent a lot of time before FIFA came into existence on the issue of IFAs coming together for a common cause.

Over the last year, FIFA has been very active on many fronts. FIFA works for everybody and over a period of time, our endeavor will be to keep improving as we get new ideas, new thoughts and new people on board. The important thing is that we are always willing to take views, accommodate and make changes, take suggestions so that it is one body for everybody and is beneficial to all IFAs.

I am quite satisfied with the way things have gone in the past one year in terms of recognition, and voice being heard. Certain things like education initiatives have kick started and now we are getting many more people who are willing to volunteer from across the country. Hopefully we will do better in the coming months and years ahead.