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To:

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&

Mr. Nimesh Shah
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Mindset Change: Inclusion a Mega Global Business Opportunity – Open Letter

Dear Mr. N. S. Venkatesh and Mr. Nimesh Shah,

As a SEBI Registered RIA, Bharosa Club has a fiduciary duty to its members and does not represent any industry group. Both of us have made Universal Prosperity our Dharma and the tag line of Bharosa is “Making Everyone Prosperous”.

We were on the founding team of PayPal and have seen how PayPal innovated. We have been intrigued for many years why the next big thing in financial services cannot come out of India.

The Great Indian Mutual Fund Tragedy

In the last two decades India has made great strides towards prosperity but many Indians rich and poor have missed out by not investing in equities or equity mutual funds. They missed the opportunity to be “Desh ki Tarakki Mein Hissedar”

Change Mindsets to Prevent a Repeat

To prevent this tragedy from repeating the following mindsets have to change

- BRJP (Bureaucrats, Regulators, Judiciary, Politicians) – to create an enabling system for prosperity)
- Industry (To see inclusion as a global mega business opportunity and not as a necessary evil where lip service has to be done and losses limited)
- People (To have a much higher % of savings in equities and to reduce savings in other informal and formal asset classes)

Please read this [open letter](#) to BRJP and view the presentations. Please also download the letters and presentations with speaking notes written to PM Modi in this [article](#). The one on ending poverty was read by PM Modi and we met a JS in the PMO.

Three Key Innovations

Three Key Innovations that BRJP and stakeholders outside AMFI can help with are listed below. They are discussed in more detail in the Annexures.

- Instant – Annexure 1
- Zero – Annexure 2
- Anyone can be a Facilitator – Annexure 3

Next step after “Mutual Fund Sahi Hai”

AMFI has done an excellent campaign to raise awareness on Mutual Funds. We hope they will use this letter to start a national debate which results in quick action on how a repeat of the Great Indian Mutual Fund Tragedy can be prevented. We have made this an open letter so that all voices can chip in. There may be better solutions than those suggested by us. Voices that want to retain KYC and PAN may have valid concerns which we are not seeing. They can put forth their case in an open letter so that public interest is served in the best way without the need to appoint expert committees, do PIL etc.

Moving Quickly and the Cost of Delay

There is little doubt that moving quickly may have some negative effects but after moving slowly there will still be need for course correction. Moving slowly does not guarantee a better implementation. What moving slowly does guarantee is that the poor will be in pain for a longer time.

Inverting The Honest /Crook problem in India

We will end this letter with a challenge. Many processes in India put a burden on the honest person and do not stop crooks. PayPal won because it inverted this. It made it easy for the honest and very difficult for crooks to commit scalable fraud.

Very truly yours

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Instant – Annexure 1

The As Is State

- KYC is required (e-KYC tries to cut cost)
- Bank Mandate creation, change, cancellation is not instant
- PAN requirement excludes many
- PEKRN is not an elegant solution
- Many fields have to be entered
- Paper/Signatures increase cost, exclude many
- Onboarding process cost is not close to zero
- Many entities, handoffs, delay – not instant
- Once onboarded any MF in AMC (across MF with CAN)
- US/Canada, HUF, Company, Minor complexities

Suggested Solution (Starting point for minds better than ours- can do phase wise if required)

- Piggyback of Bank Account
- No KYC, No PAN, No Aadhar, No Mobile, No email, No Title, No residency, No minor, No type of account
- All populated and updated when updated on account
- Fields required – AMC, Bank Account number and IFSC code. Done on App.
- Initial debit Amount fixed at 500. Fund fixed as low duration debt fund
- Instant verification through net banking, ATM (free) or in person (Rs 100 fee). To be competed within 30 days otherwise money returned. In verification increase debit limit. Change/Cancel limit free unless in person (Rs 100 fee)
- For WealthSimple MF only
- For other CAN and MFU Mandate
- One to One mapping of bank account and folio. Mapping cannot be changed. One entity can have multiple accounts
- If money laundering becomes a concern can be solved by pattern recognition AI and human similar to IGOR system of PayPal
- Onboarding cost close to zero
- Market becomes global

Rationale

- No denial of MF to anyone. Anyone who can have bank account can have MF. If status of bank account changes minor to major MF does not have to worry
- With use cases and ethical hacking, it can be determined if the simplicity above can work
- Simple extensions beyond WealthSimple can be done through MFU
- Banks will support as part of low duration will go to bank FD and on money flows banks may get some basis points which the customer pays. Regulator to make sure that basis point fee is not too much for customer

Zero – Annexure 2

We need to focus on variable cost for a folio which has a Rs 100 in a debt or equity index fund. In the first year average AUM is Rs 600 which at 0.2% direct fee is Rs 1.2. Can the variable cost be lower than 1.2? It is possible if onboarding cost is close to zero (shown in Annexure 1) and variable cost are all in basis points with zero paper. Costs like tech, employees, offices are stepped fixed costs and should not be considered in scaling.

The As Is State

- We do not know the current costs for the example folio above but suspect it is north of Rs 11.2. In that case each such folio loses Rs 10 and for every crore such folios the loss is 10 crores. If costs are higher loss is higher
- Thus, there is no incentive to chase inclusion

Suggested Solution (Starting point for minds better than ours- can do phase wise if required)

- NPCI could charge a basis point fee for a debit and credit for the network and a basis point fee for the bank debited (zero for credited)
- Registrars could charge a basis point fee for their services on amount outstanding in folios
- If mutual funds enable insure simple and borrow simple then maybe insurers and lenders could pay a few basis points to the AMC just as banks are paid basis points for debits

Rationale

- The customer earns in basis points and MF charge management fees in basis points. If the fee structure is aligned with no minimums or maximums, then the large customers will pay slightly more but also earn more and the poor customers will earn less and pay less
- This type of fee structure could cause volumes and market revenue to explode and the absolute amount of revenue each entity makes go up.
- Technology can handle very large volumes and is agnostic to transaction size. Thus, volume explosion does not increase cost.

Anyone can be a Facilitator – Annexure 3

A large number of companies that have become large have used the Anyone Paradigm by making it easy and expanding the number of people who could do an activity

PayPal – Anyone could accept online payments

Uber – Anyone could become a taxi driver

AirBnb -Anyone could become a host

eBay – Anyone can become a seller

All these had to figure out ways to control their network when it was expanded.

Starting anyone can be a facilitator in one Lok Sabha constituency maybe a good way to see how to gain maximum benefit from anyone can be a facilitator and control bad facilitators.

The As Is State

- Physical Kirana stores sell many products to the community they serve, and the processes are simple.
- Financial services firms make complex products and require distributors and advisors to pass exams and codes of conduct
- The amount of bad selling is high, and the amount of inclusion is low
- Indian consumers are used to paying convenience fees for facilitation either because they are digitally challenged or because they are busy
- Chit funds have made people lose money

Suggested Solution (Starting point for minds better than ours- can do phase wise if required)

- With simple products like WealthSimple where learning is by doing with small amounts and there is no need for advice a facilitator in every polling booth can help inclusion
- This will not impact existing IFA as this is not a market, they focus on
- For HNI customers who are victims of bad selling and want to make their own decisions but want a facilitator for execution facilitators can help
- IFA who are advisors or RIA can use platforms like Bharosa to serve their customers optimally for mutual funds and cross sell other services
- Facilitators can facilitate other simple products financial and non-financial
- If facilitators can charge only convenience fees and not touch the money invested then the chances of fraud are significantly reduced.

Rationale

- Increasing the number of facilitators means that every investor has a choice
- Robo advice combined with a facilitator will make investors more able to take their own decisions
- For those investors who need advice they can take advice from ARN distributors or RIA advisors
- This method should create a lot of jobs and as customers are used to paying reasonable convenience fees enable financial services firms to cut their distribution costs close to zero
- Just as PayPal, Uber, Airbnb figured out how to control bad and good sellers, taxi drivers and hosts the facilitation network can figure out good and bad facilitators. Facilitation for financial services is a much easier problem to solve than the ones faced by the companies mentioned above.