Direct vs. Intermediated – What is the future of mutual fund distribution?

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It has been 11 years since the launch of directs plans in mutual fund distribution. Today, 45% of the total mutual fund industry AUM is through direct plans. This rapid rise has brought up debates regarding the future of the distribution landscape, and how MFDs and RIAs can adjust to the changing times.

To get a perspective on this, Café mutual Confluence 2024 (CC24) hosted a panel discussion on The Future of Distribution: Direct vs. Intermediated, with panellists Amit Arora, Co-Head – Retail Sales, Bandhan MF, Neelesh Verma, Product Head & AVP - Mutual Funds & NPS, Zerodha, Nikhil Kothari, Director, Etica Wealth and Vishal Dhawan, Co-Founder, Plan Ahead Wealth Advisors. The panel was moderated by Nishant Patnaik, Associate Editor, Cafemutual.

Here are the key highlights of the discussion.

Direct investment platforms have undergone significant evolution, according to Amit Arora. These platforms now offer analytical tools and risk assessment capabilities that help clients make investment decisions. He notes that investor maturity has improved considerably, with average holding periods increasing from 18 months to 3.5 years, indicating a shift toward long-term investment thinking.

Nikhil Kothari explained that distributors play an important role in overcoming investor inertia, guiding high-income earners who may be under-investing, ensuring regular SIP increases aligned with income growth, and providing continuity of wealth management for families.

Nikhil expounded that a distributor understands the full profile of the investor. He can provide perspective the investor has not thought of, while applications use inputted information. He gave examples of how distributors have helped clients save significant amounts in taxes through strategic timing of investments, assisted with estate planning for aging clients, and coordinated with family members for smooth wealth transfer.

Vishal Dhawan spoke of behavior management in advisory. He showing that 90% of people revert to old habits even after life-threatening events, even a heart attack. He relates this to F&O investors who keep going back despite losses. This human tendency towards repeating one's behavior patterns and mistakes is where human advisors can come in.

Neelesh Verma also addressed what he deemed as a challenge of younger investors opting for F&O trading. F&O has 90% of people experiencing losses. While it is a current challenge, he sees it as a transitional phase, explaining that those who experience losses in F&O trading may eventually recognize the benefits of long-term mutual fund investments.

The panel also discussed the impact of fintech platforms, with Amit Arora revealing that these platforms now contribute 30% of new client acquisition for MFDs and 42% of new monthly SIPs. He explained that fintechs has succeeded in reaching areas that traditional distributors have found difficult to access, effectively expanding the overall market for mutual fund investments.

Looking ahead, Vishal Dhawan suggests that the future will largely depend on how digital platforms evolve to provide last-mile connectivity. Rather than seeing different channels as competitors, he advocates for collaboration between digital platforms and traditional advisors. The hand-holding ability of distributors and advisors mixed with the efficiency of technology offers the best of both worlds to investors.

Vishal also highlighted important upcoming regulatory changes that will allow RIAs to offer both distribution and fee-based services, allowing them to align their services with client preferences and needs.