

Headline: ETF market will grow 20% a year

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'ETF market will grow 20% a year'



DEBORAH FUHR

Managing partner of ETFGI

Why isn't the ETF market in India as developed as in other markets?

One of the biggest challenges in India is financial advisors. Here, financial advisors are paid to sell products. ETFs don't pay anyone to sell. Advisors tend to prefer selling products they are paid for. But as financial reforms happen, as we have seen in countries such as the UK and Australia, we will see people looking for advice at low costs. In markets such

The launch of new products and the entry of new categories of investors will boost the Indian exchange-traded fund (ETF) market, says **DEBORAH FUHR**, managing partner of ETFGI. In an interview with **Samie Modak**, she says the high commission paid to financial advisors in India is the biggest impediment to growth in the passive fund sector. Edited excerpts:

as Hong Kong, we are seeing the people approach robots or computers for advice. At some point, this will happen in the Indian market, too.

Do you see the ETF landscape changing in India?

Some of the challenges in India are changing. Now, we have clarity on pension funds being allowed to invest in ETFs. Also, there is clarity on insurance companies being allowed to invest. Going forward, this will

lead to growth in assets. The pension and insurance changes are really helpful and will be beneficial to the sector here. In time, regulators will look at how financial products are sold to retail. Discussions on the impact of costs and performance are very important.

Why is the active fund sector in India so big compared to the ETF segment?

In India, the active fund sector seems to be doing quite well.

Active funds are consistently delivering an out-performance at a rate much higher than in other countries. That is something that's different about India.

What are the new innovations in the ETF space?

There has been a revolution around the concept of an index. We have seen new index methodologies come out; people are looking at weighting stocks within an index in a different way, often called 'smart beta'. Many investors want high dividends. That's something you could use an index for. Fixed income is another area. Another trend is ETFs are providing exposure to active funds.

For many, this is an interesting opportunity, as ETFs are listed on exchanges and distribution becomes easy.

How do you see the Indian ETF market growing?

The Indian ETF market will grow 20 per cent every year. Growth in new products and allowing new investors such as pension funds will drive this growth. Also, fixed-income products will help the market grow. In markets such as the US, the UK, Australia and Thailand, banning payments for sale of products has changed how people think about investing. We will see similar reforms in India.



SURYAKANT NIWATE

PROMISING GROWTH

Assets under management (AUM) of exchange-traded funds (ETFs) have grown at a compounded annual rate of 16 per cent over the past 10 years but they are still only a fraction of overall equity AUM

Sep	No. of ETFs	AUM (₹ cr)
2002	1	6
2003	3	33
2004	6	172
2005	6	3,330
2006	6	3,815
2007	9	6,527
2008	16	4,669
2009	18	2,262
2010	24	4,779
2011	28	10,690
2012	34	13,314
2013	38	12,388
2014	43	12,710
2015	51	15,122



MORE OPTIONS

Gradually, the number of ETFs available domestically is increasing

Category	No. of ETFs
Broad equity indices	22
Gold	13
Sectoral equity indices	7
Thematic equity indices	2
Strategy equity indices	2
Foreign equity indices	2
Fixed income	2

Source: NSE