



'Damp squib' is the IFA verdict on new transaction charges

A majority of the Independent Financial Advisors (IFAs) have given a lukewarm response to new transaction charges on mutual funds, finds a Cafemutual survey of 755 IFAs across the country. SEBI has recently allowed transaction charges on mutual fund applications above Rs. 10, 000: Rs. 100 for existing investors and Rs. 150 for the first time mutual fund investor.

Only 9% of IFAs felt it was a good incentive while 55% felt it was too insignificant. When asked if the transaction charge would facilitate distributors in urban areas and smaller towns to reach people with small saving potential, only 31% of IFAs agreed.

Commenting on the survey finding, Prem Khatri, Founder & CEO, [Cafemutual](#) said, "The transaction charges are seen too be too inadequate to have any impact on the IFA's propensity to push mutual funds. The survey shows that only 25% of IFAs felt that mutual fund sales would go up as a result of the transaction charges."

With the incentive being paid on each application, IFAs will split applications; say 71% of the respondents. "This may present an opportunity to the less known funds with a decent track record. Smaller AMCs with a basket of well performing funds could get a foot in the door," said Prem Khatri.

An interesting fall out of the transaction charge could be that IFAs who have conventionally favoured equity products would look at debt funds more seriously. 47% said that IFAs would push more debt funds now as these products become commercially viable now.

Finally the survey confirms the trend of IFAs transitioning to a fee based model. 50% of the IFAs said they were charging a fee to all or some of their clients. Of the IFAs who are not currently charging a fee, 42% said they would seriously consider charging a fee.

The transition to a fee-based model is picking up momentum. "In the earlier Cafemutual surveys carried out in July 2010 and December 2010, 24% and 42% of IFAs had said that they were able to charge a fee. This is encouraging news as there will be closer alignment between client and IFA interests," said Prem Khatri.

Research Methodology

Closed-end, multiple choice questionnaires were administered through email to IFAs in the AMFI database. 755 IFAs responded to the survey by sending the filled in questionnaires.