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HOW THE 2010S HAVE SHAPED THE BRICS MUTUAL FUND INDUSTRIES? – COUNTRY PERSPECTIVES

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Abstract

This paper looks and compares the progression of the mutual fund industries of the BRICS countries, the five main emerging economies, i.e. Brazil, Russia, India, China, and South Africa. The purpose is to discuss how these industries have grown in terms of their total asset size, Number of funds and the average size for each industry, their asset allocation ratios, and which one is the most prevalent among them, percentage of total AUM in terms of the global market, their equity mutual funds as a percentage of total market value, their market concentration percentages, and the distribution channels and structure of each industry. By collecting secondary data for all these countries and comparing them on key metrics aforementioned the paper finds that China is the biggest contributor among BRICS to the global mutual fund industry; Russia lags behind all the other countries in terms of asset size, and is highly regulated as well. India has been on a positive trajectory over the past few years, and has been actively trying to reach more people, and adapt to the new digital world. Brazil has shown recovery, after witnessing a fall in mid 2010s, and South Africa is also witnessing a rise in online platforms, and reductions in the prevalence of Banks and other traditional channels..

Key words: Mutual Funds, BRICS Countries, Emerging Economies, Asset allocation, Asset Management Companies, Assets Under Management.

Introduction

According to the classification of IMF (International Monetary Fund), there are two types of markets in the world – Advanced economies/markets and Emerging and developing economies/market. The criteria for this classification, as per IMF, are (1) per capita income level, (2) export diversifications, and (3) degree of integration into the global financial system.

The term BRIC was coined by Goldman Sachs chief economist, Jim O'Niell in 2001. According to him, these countries – Brazil; Russia; India; China, were on their way to become advanced economies, and had the potential to "reshape the world economy." In 2010, South Africa was added to this group, making the acronym – BRICS.

This paper attempts to capture how the countries has fared with time, in terms of their mutual fund industries compared over the years, and how they have developed as compared to the other BRICS countries. The research has collected secondary data from many sources available through the internet, such as – World Bank, IMF, ICI Factbook, AMFI, Associations for saving and investment - South Africa, CSMAR, FGV EAESP Brazil, IIFA, Invest Funds Russia, to get country specific data. The research restricts itself to comparing only these 5 countries' mutual fund markets, on their Assets under management over the years, No. of mutual funds, contribution to the world MF industry, etc.

Table 1**:** The GDP growth rate % of BRICS countries and USA over the years

Countries	2005	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
BRA	3.20	7.53	3.97	1.92	3.00	0.50	-3.55	-3.28	1.32	1.32	1.1	-5.3	2.9

Countries	2005	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
CHN	11.40	10.64	9.55	7.86	7.77	7.30	6.91	6.74	6.76	6.57	6.1	1.2	9.2
IND	7.92	8.50	5.24	5.46	6.39	7.41	8.00	8.17	7.17	6.81	4.2	1.9	7.4
RUS	6.40	4.50	4.30	3.70	1.80	0.70	-2.31	0.33	1.63	2.25	1.3	-5.5	3.5
ZAF	5.28	3.04	3.28	2.21	2.49	1.85	1.19	0.40	1.41	0.79	0.2	-5.8	4
USA	3.51	2.56	1.55	2.25	1.84	2.45	2.88	1.57	2.22	2.93	2.3	-5.9	4.7

Source: Figures for 2020 and 2021 are projections (International Monetary Fund, 2020).

Table 2**:** BRICS GDP over the years and share of Global GDP

Countries	2005	2010	2011	2012	2013	2014	2015	2016	2017	2018
BRA	1.88%	3.34%	3.56%	3.28%	3.20%	3.10%	2.40%	2.36%	2.55%	2.19%
RUS	1.61%	2.31%	2.80%	2.94%	2.97%	2.60%	1.82%	1.68%	1.95%	1.93%
IND	1.73%	2.54%	2.48%	2.43%	2.40%	2.57%	2.80%	3.01%	3.28%	3.16%
CHN	4.82%	9.22%	10.29%	11.36%	12.39%	13.16%	14.68%	14.62%	15.00%	15.84%
ZAF	0.54%	0.57%	0.57%	0.53%	0.47%	0.44%	0.42%	0.39%	0.43%	0.43%
BRICS	**10.58%**	**17.97%**	**19.70%**	**20.55%**	**21.45%**	**21.86%**	**22.12%**	**22.06%**	**23.20%**	**23.55%**

Source: (The World Bank, 2020)

Taking a look at the above two tables, the BRICS share of Global GDP has seen a significant increase; it grew from 10.58% (2005) to 23.55% (2018). The GDP growth for the countries has taken a major dip in 2020 due to the Corona Virus pandemic. However, it is interesting that before the pandemic as well, the year 2019 witnessed a decline in growth rate of GDP for all the countries. India declined from 6.8% (2018) to 4.2% (2019) and then a sharp fall to 1.9% (2020).

This research is being undertaken because prior to this very little research has been carried out with regards to the BRICS countries and their mutual fund industries. There has only been one paper that has taken a look at the mutual fund industries of BRIC – "The BRIC mutual fund industry (2012) by Padmini Sundaram." The research has not included South Africa in its study and the data in the research is now a decade old. One other paper published in 2018, "Mutual fund flows and investors' expectations in BRICS economies: Implication for international diversification by Fiza Qureshi, Habib Hussain Khan, Ijaz Ur Rehman, Abdul Ghafoor, Saba Qureshi" looks and examines the relationship between different classes of mutual funds and measures of investors' expectations and business cycle movements in the BRICS markets.

The research around this topic is scarce and few and far in between. Hence, this paper will try to give a snapshot of the development and progress of BRICS mutual fund industries in the last 10 years.

Literature Reviews

The Indian mutual fund industry witnessed a lot of changes post the inclusion of commercial banks and the entry of private sector. Over the years UTI lost its market share and monopoly to the private sector. In the 2010s, the concentration levels are high in the Indian mutual fund industry – 69% in 2016. However, a trend of reduced concentration is noticed, from 82% in 2003 to a gradual decline towards 69% in 2016. Smaller firms are beginning to find their space in the market and industry is starting to open up (Das & Shil, 2016). Recent initiatives and reforms have led to key structural changes in the Indian mutual fund industry. Active focus by SEBI on strengthening the distribution networks, better transparency in the industry, and emphasis on customer education and awareness has led to deeper penetration of mutual funds in India (Reserve Bank of India, 2018).

There are some key differences between the mutual industries of European countries and the U.S. mutual fund industry, amongst the two – Banks are more popular in Europe as compared to the United States. Europe values services more whereas US depends on performance indicators to make their investments (Otten & Schweitzwer, 2002). Distribution channels can have some glaring effects on mutual fund flows. The funds managed through banks in Finland defy the performance flow relationship and have a monopolistic power in Finland. As a result, they charge higher expenses, and they perform poorly (Knuutila, Puttonen, & Smythe, 2006).

High market concentration can have adverse effects on the financial stability of the market. The chances and impact of a major supply shock are directly proportional to high concentration. Other firms must promptly substitute the firm exiting the market to minimize disruption, standardized products in the market help absorb the blow, and ensuring rapid clearing of payments and monitoring competition help deal with possible instability as well (Cetorelli, Hirtle, Morgan, Peristiani, & Santos, 2007).

Investors are progressively getting sophisticated and are growing averse to the mutual fund costs, that come up in the form of commissions and front-end load fees. Thus, experienced fund buyers pay, normally, almost half the front-end-load fees of first-time purchasers. Funds with low expense ratios are significantly bigger than funds that have high expense ratios. This could mean that funds which carry low expenses lead to a greater market share which would lead to higher growth rates for funds with low expenses. But the inverse is true, there is a positive relationship between growth rates and expenses. This means funds with high expenses have high growth rates. However, in contrast, funds without front end loads which tend to be less in number compared to funds with front end loads are enjoying higher growth rates (Barber, Odean, & Zheng, 2005).

The top 60 districts contribute 41% to the GDP, but in terms of AUMs, the contributions by these districts spikes up to more than 90%; this shows that there is a penetration problem in India (Chakrabarti, Malik, Khairnar, & Verma, 2013), with regards to Mutual Funds. The next 60 districts contribute just 4%. Neither Financial literacy nor Bank penetration explain the low penetration of AUM in an area. Banks ought to be utilized more extensively to promote mutual funds and curb this skewed penetration. Penetration is highly correlation with the number of agents in a particular district. Which means, agents stand as the dominant channel for sales and delivery in India. The majority fund houses of India find that a typical investor is not adequately informed of the various mutual fund products. Fund houses also face difficulty in recruiting quality distributers and they believe the restriction on advertisements are an impediment on sales.

When a customer decides to switch, he/she does a full switch of the mutual fund portfolio. Performance is not a concern while shifting investments to a new bank, i.e. for retail investors distribution channel is of first order importance instead of performance or other variables. In just 4 years after switching banks, 35% of the investors' total investments end up with their new bank (Florentsen, Nielsson, Raahauge, & Rangvid, 2020).

Direct channels are being utilized more to access mutual funds – their business has increased from 8% in 2017 to 13% in 2019. Emerging platforms such as – Telemarketing channels, Virtual Channels, Worksite Marketing, Mall-assurance, could be utilized by the industry to expand and increase their reach as well. The existing exchange platforms of the emerging distribution intermediaries have registered an upward trend in their performance too. Coverage and stagnancy in participation rate from retail investors, are some issues that are holding the Indian mutual fund industry down (Dikkatwar, De, & Prasad, 2019).

Developed capital markets, i.e. investor confidence in market integrity, liquidity and efficiency and a greater supply investable security, lead to a fast advancement of mutual funds. High income countries with larger mutual fund markets, correlate to openness to trade and a high share of high-tech exports. Whereas, middle income countries correlate per capita income and strong banking systems to mutual fund development. The legal origin also presents a significant correlation with the development of mutual funds. Common law countries have equity funds that are more advanced, while bond funds are more advanced in countries with civil law systems (The World Bank, 2003).

BRICS mutual fund industries & World mutual fund industry

Table 3**:** Worldwide Assets under management of BRICS compared to USA and Global Mutual Fund Assets

Country	2010	2013	2015	2017	2018	2019
World	$ 2,91,00,000.00	$ 3,64,00,000.00	$ 3,82,43,029.00	$ 4,93,04,626.00	$ 4,66,96,197.00	$ 5,48,82,571.00
USA	$ 1,28,25,352.00	$ 1,67,23,693.00	$ 1,77,58,549.00	$ 2,21,65,945.00	$ 2,10,80,889.00	$ 2,56,87,726.00
Brazil	$ 9,80,448.00	$ 10,18,641.00	$ 7,43,530.00	$ 12,38,039.00	$ 12,11,436.00	$ 13,33,617.00
Russia	$ 3,917.00	$ 3,589.00	$ 1,426.00	$ 2,729.00	$ 4,673.00	$ 5,236.00
India	$ 1,11,421.00	$ 1,07,895.00	$ 1,68,186.00	$ 3,07,387.00	$ 2,96,868.00	$ 3,45,602.00
China	$ 3,64,985.00	$ 4,60,332.00	$ 12,63,130.00	$ 16,88,981.00	$ 17,68,597.00	$ 18,90,624.00
South Africa	$ 1,41,615.00	$ 1,42,868.00	$ 1,22,068.00	$ 1,81,762.00	$ 1,54,995.00	$ 1,77,446.00
Europe	$ 95,73,876.00	$ 1,36,01,725.00	$ 1,37,32,581.00	$ 1,77,25,155.00	$ 1,64,78,499.00	$ 1,88,08,011.00

Source: (Investment Company Institute, 2010-2020)

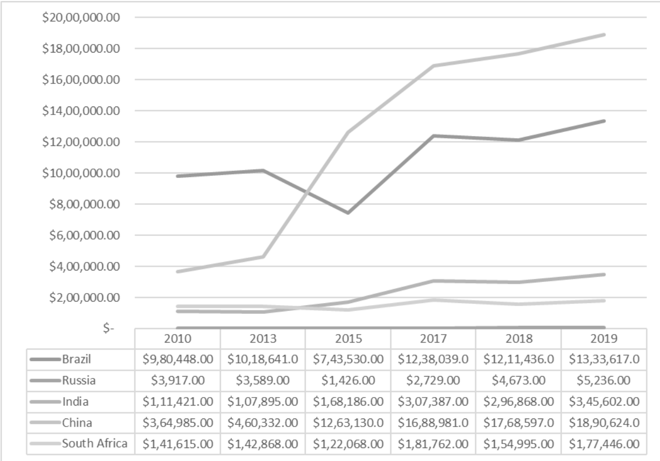
Table 4**:** Contribution to global mutual fund assets in terms of percentage

Country	2010	2013	2015	2017	2018	2019
Brazil	3.37%	2.80%	1.94%	2.51%	2.59%	2.43%
China	1.25%	1.26%	3.30%	3.43%	3.79%	3.44%
India	0.38%	0.30%	0.44%	0.62%	0.64%	0.63%
Russia	0.01%	0.01%	0.00%	0.01%	0.01%	0.01%
South Africa	0.49%	0.39%	0.32%	0.37%	0.33%	0.32%
USA	44.07%	45.94%	46.44%	44.96%	45.14%	46.80%
Europe	32.90%	37.37%	35.91%	35.95%	35.29%	34.27%
BRICS	**5.51%**	**4.76%**	**6.01%**	**6.93%**	**7.36%**	**6.84%**

Source: (Investment Company Institute, 2010-2020)

USA is still holding a major chunk of the global mutual fund industry, but over the years it has been losing its share to other mutual fund industries that have been growing rapidly. BRICS overall have grown from having a share of 5.51% to the global assets to almost 7%, i.e. 6.84%. Europe hasn't shown consistency over the years in its growth and in 2019 their share actually shrank by 1.68%, when compared to what they held in 2017. Out of the BRICS countries, China has been the dominant contributor and the Chinese mutual fund industry has grown significantly in the last decade. China had a share of 1.25% of the global market in 2010, from there, China in 2019 has a share of 3.44%. Over a decade, china grew by 175%. Following China, Brazil is the second largest contributor. The Brazil industry has seen a lot of peaks and valleys in the course of the last decade. From being the main contributor among the BRICS countries in the starting of the decade – with a share of 3.37%. The country witnessed a low of

1.94% in 2015, but since then it has seen steady growth. In 2019, the industry had a share of 2.43%. India has been steadily growing as well, but it still has a long way to go as it still holds less than 1% of the global pie. Over the last decade, India has growth has been 65%. Russia is the smallest contributor, and in 2019 it held a share of less than 0.01%.



This graph depicts the BRICS assets under management over the years.

The structure of the mutual fund industry in BRICS

Table 5**:** Characteristics of Major Mutual Fund Markets

				Asset Allocation (%)				
Countries	**Total Assets**	**Number of funds**	**Average Size**	**Equity**	**Bond**	**Balanced**	**Money**	**Others**
Brazil	$13,33,617.00	11099	$ 120.16	10.2%	48.9%	23.4%	6.3%	9.00%
Russia	$ 5,236.00	255	$ 20.53	20.7%	63.5%	10.5%	0.3%	3.15%
India	$ 3,45,602.00	927	$ 372.82	31.2%	25.6%	14.5%	20.2%	8.52%
China	$18,90,624.00	5683	$ 332.68	9.9%	21.0%	14.4%	54.1%	0.71%
South Africa	$ 1,77,446.00	1610	$ 110.21	22.7%	3.5%	48.3%	14.1%	8.67%

Source: (Investment Company Institute, 2010-2020); (European Fund and Asset Management Association, 2011-2020)

This table shows the different aspects of the BRICS mutual fund industries for the year 2019. The first column shows the total market value (in $Billion). The second shows the number of funds, the third the average size and the rest depict the asset allocation of all mutual funds to % of total assets.

The table shows that China is much larger in terms of total assets than its other fellow countries. China deals with almost $1.9 trillion in assets. Looking at the second column, Brazil has a much higher number of funds, which gives the country an average size for individual funds, which is smaller when compared to China and India. The funds in China have an average size of 332 million dollar, and the funds in India have an average size of 372 million dollar. India and China are 3 times as big as Brazil with their average fund size. Brazil because of its high number of funds, has an average fund size of 120 million dollar. The smallest country among BRICS, is Russia, with the total assets of $5 Billion and an average fund size of 20 million dollar.

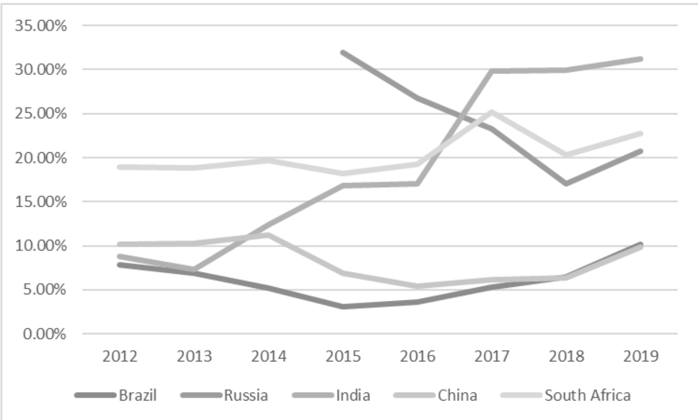
Observing the asset allocation percentages of these countries, India leads with more than 30% investors in the equity segment. The largest country in size, China, has 9.9% of the funds as equity investors. Russia and South Africa have 20.7% and 22.7% of the funds as equity investors, respectively. Following China, it is Brazil with only 10.2% of their funds as equity investors. These lower percentages could be a sign of lower demand for products that are equity-related. But it wouldn't be accurate to say that without conferring the history of the growth of these funds, and how they have fared over years to find the demand levels of the industry for equity mutual funds.

Russia, the smallest country in size with regards to asset size, has the highest share of its investments in Bond Mutual Funds within its industry. The bond segment has a share of 63.5% within the industry. Brazil's industry, the second largest in terms of asset size, among BRICS, has almost 50% of their investments held in Bond mutual funds. China favors the money market through its mutual fund investments, as more than half of the investments are made in Money mutual funds. South Africa, on the other hand, has almost half of the investments in Balanced mutual funds. India, is more balanced, as no one investment segments has a huge dominance over others. And, recently, India has shifted from being a market that favors bonds to equity mutual funds.

Table 6**:** Equity mutual funds as a percentage of Total Market Value

Countries	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Brazil	7.82%	6.88%	5.22%	3.11%	3.64%	5.34%	6.43%	10.16%
Russia				31.96%	26.76%	23.30%	16.99%	20.72%
India	8.76%	7.32%	12.35%	16.80%	17.08%	29.80%	29.92%	31.24%
China	10.19%	10.24%	11.20%	6.94%	5.38%	6.18%	6.35%	9.87%
South Africa	18.97%	18.84%	19.71%	18.20%	19.29%	25.15%	20.34%	22.71%

Source: (European Fund and Asset Management Association, 2011-2020)*;* (Investment Company Institute, 2010-2020)



This graph depicts the Percentage of Equity mutual funds to total market value over the years

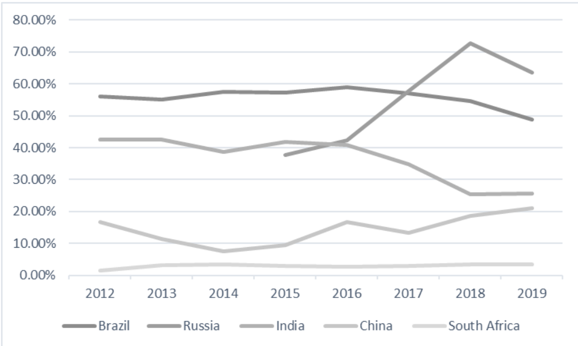
This table shows how the countries have fared when it comes to investing in Equity mutual funds and gives insight if there has been any growth in demand from investors for equity mutual funds. The growth in the numbers of the equity mutual funds in India has been substantial. India has grown at a rate of 250% in the last 7 years. No other country comes even close to this rate. Russia has shown a degrowth over the years with a rate of 35%. China has also shrunken, when it comes to investment in equity mutual funds. Over the years, China's industry saw a 3% shrinkage in their equity mutual funds investments. Brazil and South Africa have been unstable with their progress, registering a growth of 30% and 20%, respectively over the last 7 years.

It is apparent that the demand in India, for equity mutual funds is on the rise, and individuals investing in equity have been substantially increasing year on year. This could not be said for Russia or China, where there has been the opposite of growth and the equity segment has shrunken over the years, which means the demand is someplace else. For Brazil and South Africa, it seems for now the demand is on a rise, as the last few years have shown signs of growth and enthusiasm for the equity segment. Despite being the largest in size, China is not showing good signs of development in terms of their equity investments. India, seems to be growing rapidly and on their way to catching up with their fellow countries.

Table 7**:** Bond mutual funds **%** to total market AUM

Countries	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Brazil	56.07%	55.13%	57.57%	57.27%	59.04%	57.13%	54.63%	48.89%
Russia				37.66%	42.22%	57.75%	72.63%	63.46%
India	42.29%	42.44%	38.75%	41.86%	40.73%	34.91%	25.36%	25.57%
China	16.59%	11.40%	7.47%	9.46%	16.70%	13.33%	18.65%	21.01%
South Africa	1.45%	3.11%	3.50%	2.96%	2.71%	2.93%	3.27%	3.49%

Source: (Investment Company Institute, 2010-2020)*;* (European Fund and Asset Management Association, 2011-2020)

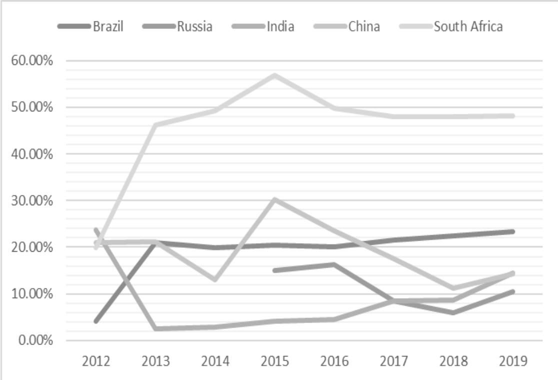


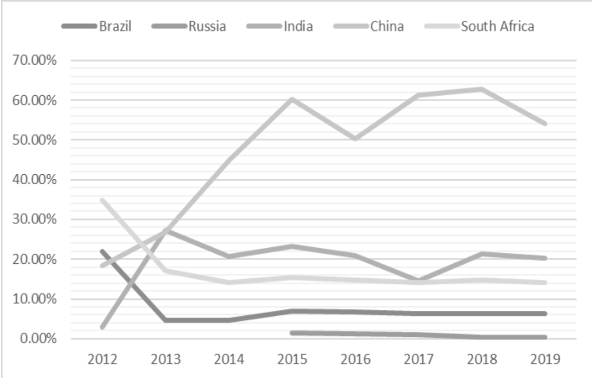
This graph depicts the percentage of Bond mutual funds to total market value.

Looking at the Bond mutual fund investments over the years for these countries, some of the markets changed their focus from being bond intensive and have shifted towards other segments, like, equity, money, or balanced. India, in the beginning of the 2010s was heavily investing in Bond mutual funds, in 2012 the share was 42.29%; in the span of 7 years it has gotten down to 25.57%. India shifted towards equity investments and saw parallel growth over the years in that segment.

Russia on the other hand, almost doubled its investments in Bond mutual funds. From 37.66% in 2015 to 63.46% in 2019. Brazil has remained fairly constant with the degree of change in their bond mutual funds. The majority investments are bond focused, till 2019, it hovered around 50% to 60%; 2019 saw an uncharacteristic dip in that percentage, where it now stands 48.89%. South Africa, seems to be focusing majorly in other investments, and bond mutual funds make up a very small share of their pie. However, it has grown in the last few years, from 1.45% in 2012 to 3.49% in 2019. They have grown at a rate of 140%. Hence, it seems the demand for bond mutual funds have been rising in South Africa.

China, lastly, haven't been stable with either a growth tangent or a fall tangent. The share over the years have seen many ups and downs. From being 16.59% in 2012, then getting cut in half in just two years, being 7.47% in 2014. Since then, it has seen a fair rise in its share, with the exception of a dip in 2017.





The first graph depicts the percentages of Balanced Mutual Funds over the years and the second graph shows the percentages of share of Money Market Mutual Funds over the years in BRICS.

South Africa heavily invests in balanced mutual funds, but for the last few years the share has been stable and has neither grown or fallen noticeably. From being 46% in 2013, 2019 saw the share at 48.26%. China significantly decreased their investments in Balanced mutual funds from 2015 to 2018. It went from being 30% in 2015, to now less than half of it in 2019, 14.35%. India has been on a similar trajectory as China, in terms of where it was circa 2012, and where it stands on 2019. Around 2012, India had was investing 23.76% of its AUMs in Balanced mutual funds. Now, in 2019 that has come down to 14.50%. Brazil has seen significant growth in its Balanced mutual funds' investments. Growing at a rate of 463% from 2012 to 2019.

The Money Market mutual fund investments, among BRICS, are most popular in China. More than half of their total investments are directed towards Money Market mutual funds. There seem to next to nothing of a demand in Russia for the Money Market segment. In 2019, its share was less than 1%. India has significantly increased its share for Money Market investments since 2012, when it was 2.86%. Growing at a rate of 604%, the share, in 2019, stands at 20.16%. Brazil, on the other hand, has seen a significant contraction in its share since 2012 when it was 21.86%. In 2019, it was 6.33%. South Africa has also been on a downward trend, when it comes to money market focused mutual fund investments. The share fell from being 35% in 2012 to 14% in 2019.

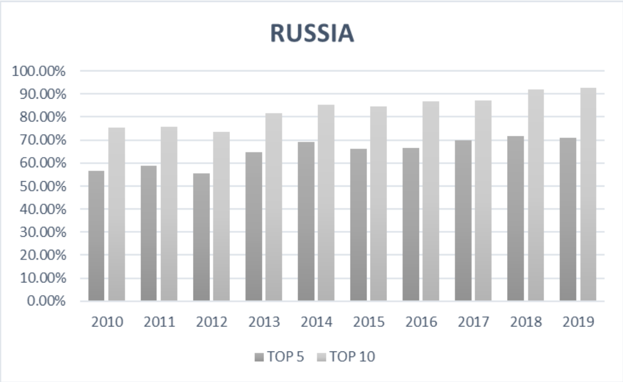
Table 8**:** Market share of Top 5 asset management companies as per AUMs

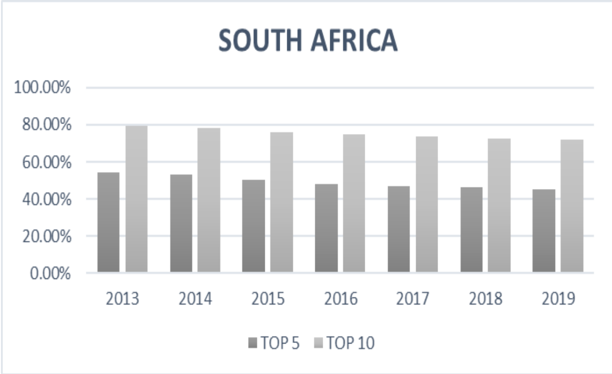
2019 (Top 5) [8]	
Brazil	74.62%
Russia	70.92%
India	58.30%
China	30.46%
South Africa	45.45%

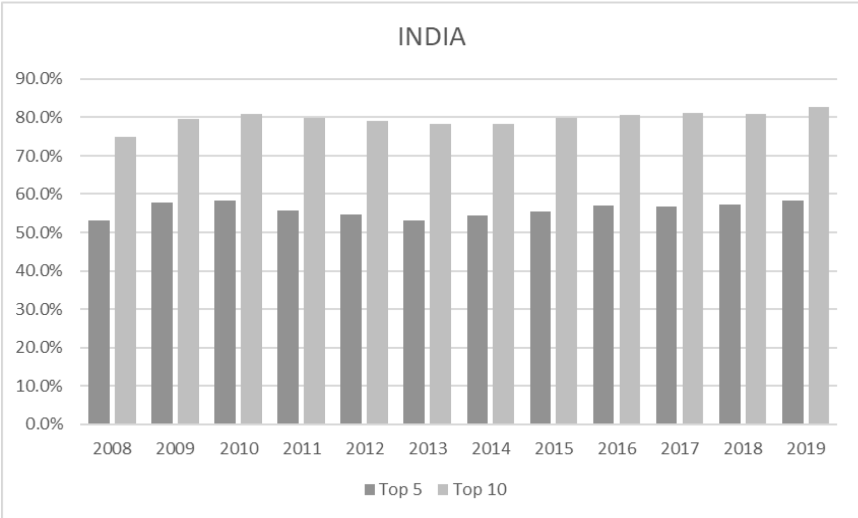
Table 9**:** HHI Index scores of the Top 5 asset management companies

2019 (Top 5)	
Brazil	1326.021
Russia	1062.589
India	693.83
China	216.384
South Africa	429.474

This table shows the 2019 concentration ratios and the HHI Index calculated as the market value of the five largest fund groups as part of the total mutual fund market.







The graphs depict the market share of the Top 5 & 10 companies over the years in South Africa, Russia, and India.

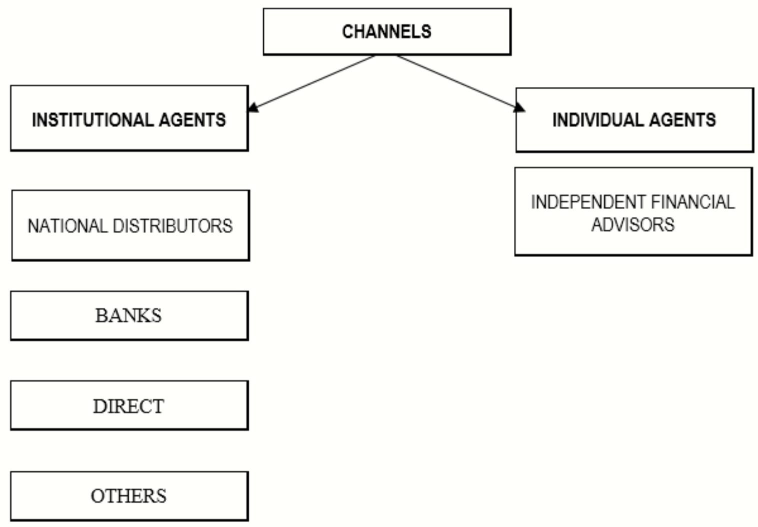
A look at the demand of mutual funds services is not enough to gauge a healthy sense of an industry, the supply of the product by these asset management companies (AMCs) is also an important factor. These AMCs generally offer the comfort of switching easily between different funds, they offer transparency for what they provide. However, if given too much power in the market, they might start controlling the market on their terms for their financial services, which could relay adversity for the entire industry and would deteriorate its performance over time.

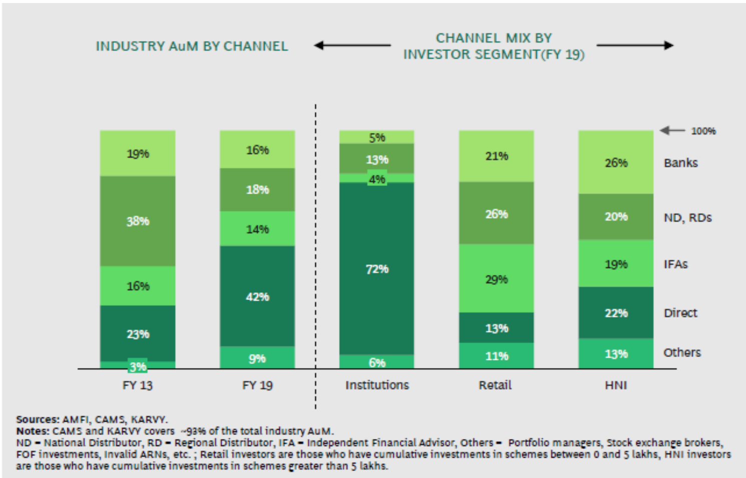
Herfindahl Hirshman Index, HHI Index, is a good measure of understanding the market concentration of an industry. Values anywhere between 1 to 1500, say the concentration is low; anywhere between 1500 to 2500 is a sign of moderate concentration; and above that is high concentration. Market share of the companies isn't a true measure of the market concentration, as it is mostly focused on a specific company's sales, rather than looking at the industry as a whole. Hence, the use of HHI Index is appropriate to understand the concentration within the industry.

All of the countries, are somewhere between 0 and 1500, therefore all of them would be concentration low on concentration and in a healthy state of competition. Although, among them Brazil is comparatively the most concentrated with almost touching the 1500 mark. China, the largest in terms of size, is the lowest in concentration and promotes competition at a healthy rate. These HI Index scores also indicate that the BRICS countries are roughly equal in terms of competition between their respective fund companies.

Distribution Channels & Market Structure

INDIA - Distribution structure as defined by AMFI





Source: BCG: Unlocking the Rs. 100 Trillion Opportunity (Boston Consulting Group; The Association of Mutual Funds in India , 2019)

This graph depicts changes in AUMs of different channels from 2013 to 2019, and shows the percentage of channels used by each investor segment, i.e., Institutions, Retail, and HNI.

The distribution channels can be broadly categorized into 2 categories: Institutional agents and Individual agents. Indian investors have a wide array of choices among mutual fund facilitators who sell mutual fund services. There are more than 1130 registered investment advisors, who employ more than 124,000 mutual fund distributors. More than 150 banks, with over 110,000 branches, offering services related to mutual funds.

The banks offering mutual funds are spread over public and private sectors, and there are established foreign banks as well who distribute mutual funds in India. To increase the mutual fund penetration among the tier-2 & tier-3 cities, the government has also established special purpose banks. These banks cater to a specific need of a customer, for example – there are 'payment banks,' that have a restriction on the number of deposits they can accept; there are 'small finance banks' as well, that serve the purpose of an entry point to the banking ecosystem for people who aren't familiar with the traditional banking system.

Over the last few years, the direct channel in India has seen tremendous growth. It's contribution to the mutual fund industry has almost doubled from just being 23% in 2013 to 42% in 2019. The direct channel reigns as the largest channel in the industry. The AUMs in direct channel is mostly funneled through institutional investors (Approx. 72%). Retail investors hold only 13% of the direct channel pie, whereas the High Net Worth Individuals have a share of 22%.

National distributors saw a decline of 20% over the same time period direct channels gained market share. The national distributors sit at 18% market share in 2019, which used to be 38% in 2013. Banks and Independent Financial Advisors, have neither lost or gained significant market share over this time period. Apart from these channels, online channels have been gaining awareness among investors over the years and have become an integral part of the discovery phase of their investment journey.

BRAZIL

Brazil is the largest economy in South America, and the mutual fund industry of Brazil is supervised by - Comissão de Valores Mobiliários [CVM]. Mutual fund distribution channels under CVM are classified as, 1. Financial Institutions, 2. Brokerage Firms, 3. Securities Houses, 4. Individuals. They must be registered with the CVM in order to carry out any distribution activities. Apart from these intermediaries, Portfolio Managers can also be classified as distributors for the funds they manage, given that they adhere to the stipulations laid out by CVM. They must also be certified by ANBIMA – the self-regulatory organization of the Brazilian securities market. The regulations by CVM also allow the use of electronic mechanisms.

Distribution in Brazil begins with the 'administrator.' The administrator is the one who creates the fund, gets it registered and is responsible for its operations. The dominant administrators in the Brazilian mutual fund industry are Banks, who hold a majority of the AuMs within the industry (more than 80%). However, the funds with these banks aren't their own, rather they are managed by independent fund managers. Therefore, the key distinction between the Brazil mutual fund industry and others, where banks are the dominant distribution channels, is that normally in such industries Bank have the ownership of the fund management companies and the distribution of mutual funds. However, in Brazil these two are fractured. In Brazil, the fund management companies need not incur expenses and time on covering their own administrative functions, it's the function of the administrator. The fund management companies are only required to talk to one of these administration companies and get them to appoint it as an investment manager.

Table 10**:** Investment Fund grouping in Brazil

Investment Funds and CVM Instructions	
Main Group	**Type**
555	555 (Equity, Fixed Income, Foreign Exchange or Multimarket funds)
Structured (non-555)	Private Equity Funds
	Asset Backed Securities Funds
	Real Estate Funds
	National Film Industry Funding Funds

Source: International Monetary Fund – Brazil Financial Sector Assessment Program (2018) (International Monetary Fund, 2018)

This table depicts the investment fund types and their grouping in the Brazilian Industry.

Investors are categorized in 3 segments according to the Brazilian framework:

1. Professional

2. Qualified

3. Retail.

Based on the categorization of investors, it is decided what types of funds will be marketed to them. These are the type of *Professional Investors:*

a. Insurance Companies

b. Pension funds

c. Financial Institutions

d. Foreign investors

e. Investment funds, clubs (if managed by an asset manager authorized by CVM) and the following authorized market participants: registered representatives, asset managers (individual), analysts and advisors

f. Individuals with more than R$10 million in financial assets

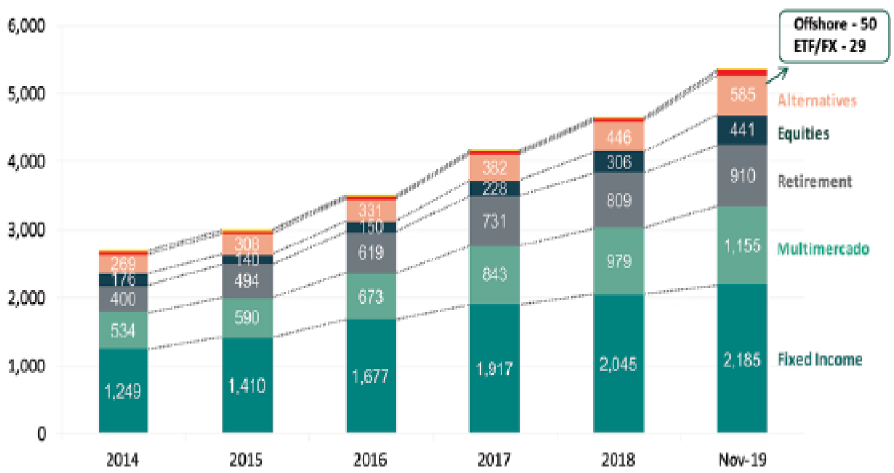
These would be considered as *qualified investors:*

a. Professional Investors

b. Individuals approved in exams or holders of certificates accepted by CVM as a requisite for registration as registered representatives, asset managers (individual), analysts and advisors.

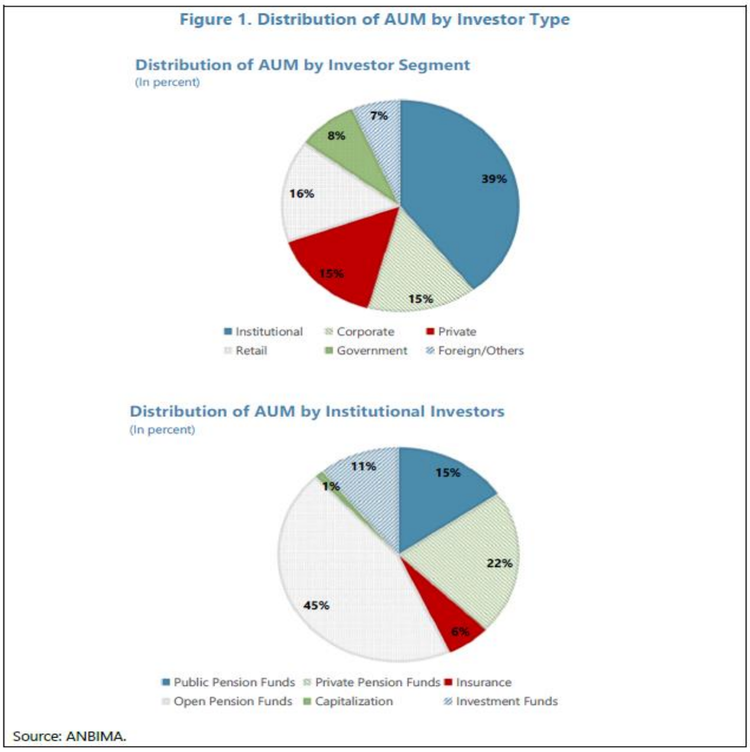
c. Individuals with more than R$1 million in financial assets.

All investors who are neither Professional nor Qualified are considered to be *Retail Investors.*



Source: Brazilian Mutual Fund Industry, 2020 Yearbook. (Fundação Getúlio Vargas, 2020)

This graph shows the growth over the years in the different types over mutual funds in brazil.



Source: International Monetary Fund – Brazil Financial Sector Assessment Program (2018) (International Monetary Fund, 2018)

The beginning of the 2010s saw the retail investor segment in brazil at a 30% share of the total AUMs. This percentage has been constantly declining since then, it reached 16% in 2018, and fell further to 6% in the next year. These numbers include retail and high-income retail. The private pension channel over the years has become more popular of an investment option in Brazil.

The online platforms have also emerged as a viable distribution channel in the industry, and have caused something of a revolution in the distribution of funds in Brazil. More than 90% of the fund managers in Brazil now use digital platforms as a distribution channel. If we consider autonomous agents along with these, the percentage rises to 97.3%. Distribution channels in Brazil are witnessing a disruption by the hands of fintech and applications that will enable data sharing, connectivity between customers, financial institutions, fintech, etc.

Brazil has been facing some pressing problems after recovering from the 2015-16 recession. High interest rates have led the investors to superficial analysis of yields, which has resulted in the abandonment of retail investments. The complexity of investing in mutual funds is also a concerning, as it has been noticed by its proponents that investing in mutual funds as compared to other investments considerably required much more effort. The industry is looking forward to overcome this challenge and regain the retail investor segment to what it used to be.

RUSSIA

The Russian fund market is relatively young and compared to other countries isn't as economically developed. In terms of regulation as well, Russian fund market is highly regulated. The funds in Russia are broadly classified into three categories: Open-ended, Close-ended, Interval, and Exchange-traded funds.

Open-ended: The fund holder here has a right to redeem any part, or all of its units at any point of time.

Exchange Traded Funds: The owner can demand the appropriate authority to purchase a part or all of its units at a time of their choosing and can ask to sell these on the stock exchange according to the rules established by the management company. The authority can then redeem all of it or parts of it on the dates pre-established by the company's rules.

Interval Funds: The unit holder is in the capacity to redeem any part of its units or all of its units, but only on the dates scheduled by the fund's rules.

Closed-ended funds: These funds do not give rights to the unit holder to redeem its units at the time of its choosing. They shall wait for the term to get completed.

The structure of the mutual funds in Russia:

1. Fund/Management Company (Underwriter): It is responsible for the management of the fund and takes investment decisions regarding the fund's capital.

2. Custodian: The custodian keeps a record of the funds' assets.

3. Transfer Agents: Transfer agents provide the services of issuing, redeeming, and exchange of funds' shares. Generally, there duties are performed by the bank's affiliate networks.

4. Independent Auditor: Keeps a track of the accounts, adherence to the procedures, and calculates net asset value.

5. Registrar: Keeps a record of the ownership's rights of fund's investors.

6. Independent Assessor: Evaluates non marketable assets of a fund.

CHINA

China's fund management industry can broadly be classified within two funds: Public and Private.

Public funds are popular among the mass-retail investor segment and Private funds are preferred by HNWs and Institutional investors. In major contrast to other mutual fund industries, retail investors in china have a bigger share of the AUMs than institutional. Banks were a dominant force in China, but with the introduction of online platforms, the landscape has changed dramatically.

2013

The year witnessed some major changes in regulation for the Chinese mutual fund industry. Foreign banks were permitted to distribute funds in China on their own, rather than teaming up with a local Chinese manager in a joint venture. Apart from allowing foreign players in the market, the success of online fund marketplace was a good sign as well, and diminished the need of physical distribution networks. Online distribution in china was segmented through two channels: 1. Distribution operated by fund companies and 2. Online distribution via third-party e-commerce platforms.

Other intermediaries that exist in china are: 1. Commercial Banks, 2. Securities companies, 3. Securities investment consulting institutions, and 4. Professional fund sales institutions.

In china retail banks hold major share of the total fund sales.

Table 11**:** Distribution Channels prevalent across Asia (2013).

Distribution in Asia*

Channel (% share)	*Hong Kong*	*Australia*	*China*	*Korea*	*Japan*	*Taiwan*
Banks	***78%***	-	43%	27%	33%	30%
Brokers/agents/IFAs/ Distribution companies	3%	25%	13%	***63%***	***66%***	9%
Fund company direct sales	-	5%	35%	<5%	1%	43%
Other**	19%	***76%***	10%	4%	-	17%

* Source: Asset Management Industry bodies as of December 2013
** Insurance companies, e-platform, fund of funds, master trusts

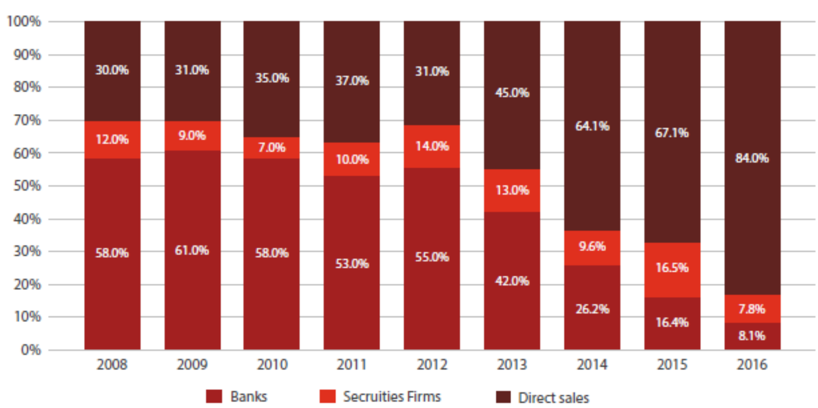
Source: PwC – "The future of funds distribution in Asia."

Banks in china are dominant with 43% of share in 2013. Following banks are direct sales through fund management companies, which have a share of 35%. Other included online platforms, insurance companies, etc. which has been steadily growing, and in 2013 held a share of 10% of total fund sales.

2012-13 made it apparent that online distribution will have a bright future in china, because of its high yield's offerings relative to other funds it had been warmly received by the Chinese investors. One challenge that online platforms saw in 2013, was becoming ready for more sophisticated products in the future. Online platforms carried innovation in the industry, and also offered ease and convenience that wasn't there previously.

2016

China Mutual Fund Sales Channels, 2008-2016



Source: PwC (2016) Asset and Wealth Management Market Intelligence Digest (PricewaterhouseCoopers, 2016)

This graph depicts the percentage shift of China mutual fund sales channels over 2008 – 16.

In a span of 8 years, the mutual fund distribution landscape of china changed completely. After the emergence of e-platforms for the distribution of funds, the dominance of banks started shrinking year on year as fund management companies had pivoted their investments towards direct online platforms. A major proponent of this evolution was Alipay's YuE Bao product which is managed by Tianhong Asset Management. By linking the account of Alipay users with this fund, it allowed the average consumers to invest their unused or disposable funds into their product which was offering greater returns than other alternatives. It could also be easily liquidated by these users in case they were to purchase something from the Alibaba marketplace.

2019

Third party online platforms in China continue to flourish and have been a major influence on the ever-increasing sharing of money market funds in the industry. Out of all the funds sold through e-platforms 80% are supposed to be MMFs. It has also amassed the highest number of new accounts among all other channels.

2019 witnessed some regulatory changes that are sure to affect the Mutual Fund distribution in China and would probably lead to a consolidation of the distribution market. The regulators of the industry raised the requirements for the fund distribution companies, and abolished the concept of permanent licenses for fund management companies by bringing forward the concepts of renewals. This could lead to the market getting consolidated as it'd be difficult for some distributors, especially independent fund sales firms, to keep up with the AUM required to qualify for license renewals.

SOUTH AFRICA

South Africa is the most evolved and matured market in Africa. Economically, with the largest number of AUMs, as well as legally and in terms of regulatory framework. The south African funds are regulated by Financial Services Board under the terms of the Collective Investment Schemes Control Act, 2002. Collective Investment schemes have been segmented into 3 categories by the regulator: 1. CIS in securities [CISS], 2. CIS in property [CISP]. 3. CIS in participation Bonds [CISPB]. The majority of the investments are made in securities, i.e. CISS.

Classification of funds and distribution channels:

The regulatory body – 'The Association of Savings and Investments South Africa (ASISA), assists the Financial Services Board with the regulation of the Industry.

First tier of Classification:-

1. South African Portfolios: These portfolios are mandated to invest atleast 70% of the assets in domestic markets. For the rest, 25% is the maximum limit to be invested in foreign assets, and 5% could be invested in portfolios in Africa, excluding South Africa.

2. Worldwide Portfolios: Under these portfolios, the investor is free to invest however they choose to in foreign and African markets.

3. Global Portfolios: A person choosing a global portfolio would need to invest 80% of their assets outside of South Africa.

4. Regional Portfolios: These portfolios limit the investor to one specific country outside of South Africa, with 80% of assets invested there.

Second Tier of Classification (On the basis of Assets):

1. Equity Portfolios: 80% of the market value in equities.

2. Interest Bearing Portfolios: Exclusively invest in bond, money market, and other interest earning securities.

3. Multi Asset Portfolios: The objective is to maximize total returns. Hence, these portfolios invest diversely in equities, bond, money market, properties.

4. Real Estate Portfolios: These invest in property shares.

Distribution of Collective Investment Schemes:

1. Fund Companies: Investing directly through a fund management company. It can be cost effective, but it could end up limiting the investor to only their funds.

2. Linked Investment Service Provider: Most retail investors are not comfortable investing independently and seek the help of a financial advisor. Fund companies, for such reason have a multitude of advisors spread over the country, to help investors. Most advisors in South Africa, use Linked Investment Service Provider to manage the accounts of their clients.

3. Direct Sales: Investors also have the choice of investing of their own accord by utilizing the investment platforms available to them. This option is generally used by people who feel qualified enough to take investment decisions independently.

4. Intermediaries: Investment platforms could be classified as intermediaries as well, and other avenues such as banks etc. would also be considered intermediaries. Unfortunately, ASISA has not provided clear outlines regarding the distribution channels in the industry. Therefore, the minute details of classification depend on the individual.

Table 12**:** Mutual Fund distribution channels prevalent across Emerging Economies**.**

Table 1. MF Distribution channels in select EMEs

	Banks	Insurance Companies	Securities Brokers	Financial Advisers	Sale Agents	Fund Su-permarket
Brazil	X					
China	X		X		X	X
Costa Rica			X	X	X	
Hungary	X		X			
India	X			X		
Indonesia	X		X			
Kenya		X	X	X		
Korea	X		X	X	X	
Malaysia	X		X		X	
Morocco	X		X			
Pakistan	X		X	X	X	
Peru	X		X			
Saudi Arabia	X		X			
South Africa	X	X			X	
Turkey	X		X			

Source: WBG (2015) Mutual Fuds in Developing Countries (based on an IOSCO survey)[5]

Source: World Bank Group: Promoting Competition in the distribution of Mutual Funds. (World Bank Group, 2017)

1. Independent Financial Advisors: They are independent of all asset providers. They are normally paid through commissions from companies.

2. Tied/Sales Agents: They only offer products or assets of specific fund companies they are attached to. Their remuneration is a mix of commissions and salary.

3. Own Salesforce: The company has an in-house salesforce that are meant to distribute and sell the products.

4. Direct: These could be investment platforms where the investor can make decisions and invest independently.

5. Banks: Banks are another channel of distribution whereas, they offer services to the account holders to, either invest in a specific product of a provider they are tied to, or they offer their own services to help investors invest.

Table 13**:** Percentage share of distribution channels in South African mutual fund industry**.**

Distribution Channels (2018)

Source of Sales	% of Total Sales
Direct Investors	28%
Linked Investment Service Provider	22%
Intermediaries	30%
Institutional Investors	20%

Source: Collective Investment Schemes Annual Report (Financial Services Board , 2018)

The majority of distribution of Collective Investment Schemes (or Mutual Funds) is through insurance companies and banks. The independent Financial advisors' channel has been shrinking over the years and with online platforms on the rise due to increasing levels of internet connectivity and consumer sophistication, the do-it-yourself or the direct sales channel has been gaining share (PricewaterhouseCoopers, 2016).

However, excluding the institutional segment and only considering the retail mutual fund segment of the south African market, IFAs still hold major influence as they hold 64.6% of total retail AUM (2019). Linked Investment Insurance Providers (LISPS) have also grown significantly in the last few years. Their assets in the industry have grown at a CAGR 20.7% since 2006. These advisors are having their focus on the domestic market, as 90% of their assets are invested domestically. By the end of 2017, LISPs have grown to 22% of market share in the industry. Intermediaries, which would include banks, are still leading with 30% but aren't as dominant as they used to be.

Key Findings & Conclusion

Among the BRICS countries, China is the largest contributor to the global mutual fund industry. Its surpassed Brazil in 2015, when it shrank to having a share of 1.94% from having 3.37% in 2010. India has been constantly growing over the years, yet its contribution is still less than 1% to the global AUMs. South Africa's contribution is less than 0.50% and the smallest contributor among BRICS – Russia, hasn't shown much growth over the years, and has a share of 0.01%.

In terms of Total Assets, China leads among the BRICS countries with $1.9 trillion in assets. Brazil is second, India ranks third, and then South Africa, and Russia stands with the lowest total assets among BRICS countries.

Brazil has the highest number of funds with more than 11000. Russia, whose number of funds have progressively reduced over the years, has the least with 255.

India leads the way among all the BRICS countries when it comes to Average fund size. China stands just behind India. Russia again has the lowest fund size. South Africa is fourth and Brazil is third with a very minor gap between them.

The highest percentage invested in equity funds appears in Indian Markets, where the asset allocation for equity funds is 31.2%. The country in short time has moved from a bond focused market to an equity focused market. In 2012 less than 10% of the total assets were put in equity funds, in less than a decade this percentage, due to government reforms and initiatives has grown to be more than 30%. Brazil and Russia have majority of their assets involved in Bonds. In China, Money Market funds are most popular, because of the e-platforms their flourishing as a channel to invest in Mutual Funds and the infrastructure supports investing in Money Market funds the most.

Apart from India, no other country among BRICS has shown significant growth and demand towards Equity funds.

Market Concentration in all these countries according to the HHI Index shows is low. Brazil amongst them is the most concentrated, followed by Russia. Russia being the 2nd highest isn't a good sign for their industry as it is highly regulated as well. This could restrict their growth even further. Just looking at the market share of Top 5 companies, they hold almost 71% of the market. China in this regard is doing really well, their top 5 companies only hold 30.46% of the market.

In India, Direct Channels have grown significantly over the years and now hold majority of the AUMs with 42%. Although major inroads have been made by the direct channel within Institutional Investors, while Retail Investors are still demanding Independent Financial Advisors and Traditional Distributors to invest in Mutual Funds.

The AUMs through retail investors have been on a constant decline in Brazil due to constant changes in Interest Rates. In 2019, it fell to just being 6%. Institutional investors are still the major contributors of the industry with almost 40%. Banks are still a dominant channel in Brazil, but e-platforms on the come up as well. These platforms are now widely recognized as a distribution channel as most of the fund managers and agents have integrated fintech to their services and have started offering these services to the investors.

Russia is a young market and finding hard numbers and statistics on their distribution hasn't been made possible by their databases and archives.

China was majorly a Bank dominant market, and now has grown to have e-platforms as their major distribution channel. From Banks having 58% of the share in 2008, their share has been declining since and direct sales have taken a major hold. In 2016, it had a share of 84% in the market.

South Africa's distribution channels are dominated by traditional distribution channels and growth of direct channels and e-platforms have been slow. A majority still rely on Banks and Agents to invest in Mutual Funds. IFAs are quite popular among retail investors, with a 64.6% share of their total AUMs. LISPs have also been growing steadily over the years, and hold 22% of the market share.

The BRICS mutual fund markets are quite diverse in terms of industry regulations, goals, and investor profiles. Each country has grown significantly in the last decade. China has surpassed others in terms of their industry adapting to e-platforms as a distribution channel. India has been focused on expanding their distribution and focusing on digitalizing the distribution channels. It has seen significant growth and has met a lot of these challenges, but wider distribution could be utilized through a quick adaptation of online platforms, customer awareness and education, and proper utilization of banks and their distribution networks. Russia over the years has been struggling and going back and forth between liberalizing and easing regulations and consequently failing to do so. With high concentration within their industry, their fund offerings as well as fund companies have been reducing over the years instead of expanding. South Africa, has been on a positive outlook and has been growing. The BRICS countries are an important part of the global mutual fund industry, the most apparent sign could be their ever-increasing contribution over the years to the total global AUMs. As these countries grow, their influence and impact on other economies will as well. It's important that they focus on building robust frameworks and transparency within their respective industries and help let competition flourish.

Future Scope

As the Covid pandemic has stormed over the world economy, and measures like country wide lockdowns, financially, have adversely impacted most industries and households, economies all over are struggling. It's also fair to say, consumer sentiment has gotten more volatile and shakier when it comes to financial markets. It would be a worthwhile endeavor, post covid-19, to assess the strain the mutual fund industries have had to deal with, and post the Covid trauma how they are recovering.

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