

## **CONSULTATION PAPER ON PROMOTING FINANCIAL INCLUSION THROUGH SACHETISATION OF INVESTMENT IN MUTUAL FUND SCHEMES**

### **1. Objective**

1.1. To promote financial inclusion, inculcate the habit of systematic saving and facilitate investment of small savings by investors new to the Mutual fund space, by sachetisation of Mutual Funds.

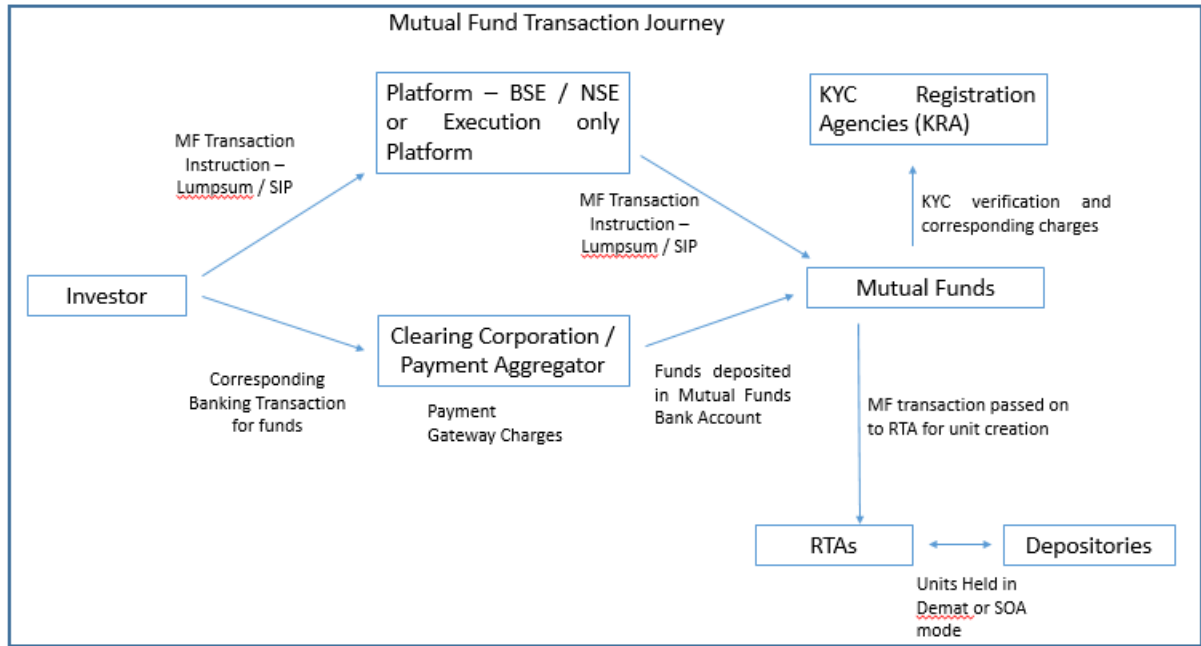
### **2. Background**

2.1. A mutual fund is an investment vehicle which collects and pools money from large number of investors and invest the money in money market instruments, equities, bonds, government securities and commodities such as gold and silver. The pooled money is managed by professional fund managers and these fund managers are required to adhere to various compliances and checks in order to protect the interest of investors.

2.2. Mutual Funds offer many types of schemes across equities, bonds and commodities and investors can invest in these schemes based on their investments needs and goals. An investor can invest in a mutual fund scheme by way of a lumpsum investment (i.e. single payment) or by way of Systematic Investment Plan (SIP) [i.e. periodic payment over a defined time period].

2.3. Since 2014, the Asset under Management (AUM) of the Mutual Fund Industry has grown from Rs.10 Lakh Crore (Rs.10 trillion) to Rs. 68.08 Lakh Crore (Rs. 68.08 trillion) as on 30<sup>th</sup> November 2024. The total number of unique investors of Mutual funds has grown from 1.7 crores as on March 31, 2018 to 5.18 crores as on November 30, 2024. The number of investor folios has also gone up from 8.65 crore folios as on 30-November-2019 to 22.08 crore as on 30-November-2024.

- 2.4. While the number of investors participating in Mutual Funds have grown steadily over the years, there is a considerable opportunity for increasing the reach of the Mutual Funds to all sections of the society, to enable every individual to have access to this financial product.
- 2.5. In order to increase the reach of the Mutual Funds across the country, to facilitate participation from low income group sections of the society and to achieve the larger objective of financial inclusion, a proposal of sachetisation of mutual funds has been envisaged. Sachetisation of mutual funds will enable small ticket investment in mutual funds gradually on periodic basis. This can assist in financial empowerment of the underserved section of the economy and nudge fund houses to expand their footprints to even remote locations in the country.
- 2.6. To serve the objective outlined above, SEBI in collaboration with the Mutual Fund industry has envisaged a sachetized mutual fund product i.e. small ticket SIP of Rs. 250/-. All intermediaries which are regulated by SEBI and which provide service and infrastructure support to Mutual funds have generously agreed to participate in this initiative to make the product viable and sustainable.
- 2.7. Presently, while some Asset Management Companies (“AMC”) do offer SIP with small ticket size under some of their schemes, the product proposed to be offered under the sachetized mutual fund product i.e. small ticket SIP of Rs. 250, provides an opportunity to the entire industry to participate in this cause of financial inclusion.
- 2.8. A mutual fund transaction, whether lumpsum investments or SIP, has many essential components. These inter alia include on-boarding and KYC charges, platform fees i.e. charges for BSE/ NSE or Execution only platforms, payment gateway charges, etc. These elements are depicted in the following chart –



2.9. The industry participants involved in the Mutual Fund space have agreed to offer discounted rates to enable faster break-even for AMC's on cost incurred towards these investments. Additionally, part of the cost of investment for AMC's and certain incentives for financial inclusion are proposed to be compensated from the Investor Education and Awareness Fund to further reduce the break-even time for AMC's and encourage further penetration of the financial product.

2.10. With subsidised charges offered by intermediaries and reimbursement of certain costs from the Investor Education and Awareness Fund, it is expected that cost of small ticket SIP of an investor new to Mutual Fund industry would break-even for the AMC's within 2 years. Accordingly, it is expected that AMC's would actively pursue this objective of financial inclusion.

### 3. Salient Features of 'Small Ticket Systematic Investment Plan'

3.1. The small ticket SIP i.e. Rs. 250/- SIP that an investor can start may be restricted to three SIPs (one each in upto 3 Asset Management Companies). AMC's can continue to offer Rs. 250/- SIPs beyond three small ticket SIPs but the discounted rates offered by intermediaries are restricted to only first three Rs. 250/- SIPs.

- 3.2. Small ticket SIPs may be offered under the Growth option of the plan.
- 3.3. Considering the higher cost of investment through alternate modes, the mode of payment/investment for small ticket SIP may be restricted to National Automated Clearing House (NACH) and Unified Payment Interface (UPI) auto pay mode only.
- 3.4. The small ticket SIP may be made in Statement of Account (SOA) mode or demat mode of investment.
- 3.5. The Know Your Customer (“KYC”) cost incurred by the scheme for small ticket SIP may be compensated from the fund collected by AMCs by charging 1 bps to Mutual Fund Schemes for investor education and awareness.
- 3.6. Further, as the commissions of Mutual Fund distributors are linked to investment size, with small ticket size of investment under the proposed scheme, the commission for distributors will be marginal. Therefore, to encourage distributors and EOPs to participate in and pursue the cause, an incentive of Rs. 500/- may be extended to them for educating an investor new to Mutual Fund industry and facilitating sustainable long term investment.
- 3.7. All statutory disclosures to unitholders may be through a registered mobile number and email id (if provided by the investor). If abridged disclosure is made to investors through SMSs then detailed statutory disclosures should be made available through a link shared through SMS or/email and such link should remain active for the investor.

**4. The detailed proposal on ‘Sachetisation of Mutual Funds - Small Ticket Systematic Investment Plan’ is placed at Annexure A for comments.**

**5. Public Comments:**

- 5.1. Public comments are invited on the following:
- 5.1.1. The Detailed Proposal on Sachetisation of Mutual Funds - Small Ticket Systematic Investment Plan, placed at Annexure A.
- 5.1.2. Whether the proposal of providing disclosures through SMS is appropriate, for small ticket SIP investors?

5.2. The comments / suggestions should be submitted latest by February 06, 2025, through the following link:

<https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes>

5.3. The instructions to submit comments on the consultation paper are as under:

- i. *Before initiating the process, please read the instructions given on top left of the web form as “Instructions”.*
- ii. *Select the consultation paper you want to comment upon from the dropdown under the tab – “Consultation Paper” after entering the requisite information in the form.*
- iii. *All fields in the form are mandatory.*
- iv. *Email ID and phone number cannot be used more than once for providing comments on a particular consultation paper.*
- v. *If you represent any organization other than the types mentioned under dropdown in “Organization Type”, please select “Others” and mention the type, which suits you best. Similarly, if you do not represent any organization, you may select “Others” and mention “Not Applicable” in the text box.*
- vi. *There will be a dropdown of Proposals in the form. Please select the proposals one- by-one and for each of the proposal, please record your level of agreement with the selected proposal. Please note that submission of agreement level is mandatory.*
- vii. *If you want to provide your comments for the selected proposal, please select “Yes” from the dropdown under “Do you want to comment on the proposal” and use the text boxes provided for the same.*
- viii. *After recording your response to the proposal, click on “Submit” button. System will save your response to the selected proposal and prompt you to record your response for the next proposal. Please follow this procedure for all the proposals given in the dropdown.*
- ix. *If you do not want to react on any proposal, please select that proposal from the dropdown and click on “**Skip this proposal**” and move to the next proposal.*

- x. *After recording your response to all the proposals, you may see your draft response to all of proposals by clicking on “**Check your response before submitting**” just before submitting response to the last proposal in the dropdown. A pdf copy of the response can also be downloaded from the link given in right bottom of the web page.*
- xi. *The final comments shall be submitted only after recording your response on all of the proposals in the consultation paper.*

5.4. In case of any technical issue in submitting your comment(s) through web based public comments form, you may contact on [peterm@sebi.gov.in](mailto:peterm@sebi.gov.in) and [laxmir@sebi.gov.in](mailto:laxmir@sebi.gov.in) with the subject "**Consultation paper on promoting financial inclusion through sachetisation of investment in Mutual Fund schemes**".

**Encl.: Annexure A**

**Issued on: January 22, 2025**

**Detailed Proposal on Sachetisation of Mutual Funds - Small Ticket Systematic Investment Plan**

**Maximum number of Small Ticket SIP at subsidized rates**

1. The small ticket SIP i.e. Rs. 250/- SIP that an investor can start shall be restricted to three SIPs (one each in upto 3 Asset Management Companies). AMCs can continue to offer Rs. 250/- SIPs beyond three small ticket SIPs but the discounted rates offered by intermediaries are restricted to only first three Rs. 250/- SIPs.
2. If the investor is an existing investor of Mutual Fund Industry or if the investor initiates any SIP investment other than small ticket SIP or makes a lumpsum investment, the investor shall not be considered as a small ticket SIP investor for any of its investments at the industry level.
3. The reduced rates offered by stock exchanges, Depositories, RTAs and KRAs for small ticket SIPs are restricted to the said first three small ticket SIPs (SIP of Rs 250). Therefore, the revised reduced cost offered by intermediaries shall be applicable across AMCs, but only for first three SIPs (one each in upto 3 AMCs).

**Schemes and plans in which Small Ticket SIP should be offered**

4. Small ticket SIPs shall be offered only under Growth option of the plan.
5. Small ticket SIPs shall be offered in any schemes except for Debt schemes, Sectoral & Thematic Schemes, Small-cap and Mid-cap Schemes under Equity Schemes category.

**Acceptable mode of payments/investment**

6. The mode of payment/investment for small ticket SIP shall be restricted to NACH and UPI auto pay.



**PEKRN based KYC and Relaxation for Mutual Funds on KYC cost**

7. Funds collected at the AMC level from 1 bps charged from Mutual Fund Schemes for investor education and awareness, can be used for reimbursement of charges by KRA for KYC of investor for small ticket SIPs (i.e. three SIPs on which subsidised rate offered by KRAs). The reimbursement of the KYC expense from the AMCs' Funds, created out of 1 bps charged to schemes, shall be restricted only to the maximum of three small ticket SIP (one each in upto 3 AMCs) and subject to the investor not making any investment other than small ticket SIP.
8. Investment of upto Rs. 50,000/- per investor, per mutual fund, per financial year is permitted without PAN. Therefore, PAN exempted KYC Registration Number (PEKRN) based KYC will be available for small ticket SIP.
9. KRAs are required to ensure that multiple PEKRN are not issued to a single investor (with different ID proofs). Therefore, if PAN is not provided by an investor for KYC, AADHAR card shall be mandated for issuance of new PEKRN, as AADHAR can be uniquely validated.

**Distribution commission and incentive for distribution**

10. An incentive of Rs. 500/- shall be provided to distributor/Execution Only Platforms (EOPs) for small ticket SIP. The incentive should be over and above the distribution commission payable by AMC to the distributor.
11. Fund collected by AMCs at AMFI level for industry based investor education and awareness programs shall be used for the incentive to distributors/EOPs for their efforts towards financial inclusion. The incentive should only be given to the distributors/EOPs on completion of 24 instalments (2 years for monthly SIP or 1 year for fortnightly SIP).
12. The incentive shall be restricted to the first small ticket SIP started under this scheme at industry level i.e. max incentive of Rs. 500/- per investor.



13.No transaction charges shall be payable to distributors for such small ticket SIPs.

**Other Features**

14.The small ticket SIP shall be made in SOA mode or demat mode of investment.

15.Small ticket SIP is primarily envisaged for monthly SIPs. The option of fortnightly small ticket SIPs may also be enabled, as the same will reduce the transaction cost due to fixed quarterly UPI charges and thus will further reduce the breakeven time for AMCs.

16.Commitment by an investor under small ticket SIP scheme should be for 5 years i.e. 60 investments. However, if investor desire to stop SIP or withdraw the SIP investment prematurely, there should be no restriction on it.

17.Asset Management Companies shall ensure that a valid mobile number of an investor of small ticket SIPs is in their record, for statutory disclosures. Email id may be optional for small ticket SIPs.

18.All statutory disclosures to unitholders shall be through a registered mobile number and email id (if provided by the investor). If disclosure is made to investors through a link on mobile number and/or email id, the link should remain active at all times and investor should be able to download the disclosures made thereunder.

It is expected that the financial inclusion facilitated under this scheme would break-even for the AMCs within 2 years. Accordingly, it is expected that AMCs would actively pursue this objective of financial inclusion.

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