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Are all mutual fund junkets fun and frolic?

Distributors share their opinion on sales driven trips organized by fund companies.

Ravi Samalad | 16-11-18

After market regulator Securities and Exchange Board of India, or, SEBI came out with its recent circular directing fund houses to account all expenses incurred towards distributors within the scheme, fund houses are said to have withdrawn all trips/events which were in the pipeline. Morningstar spoke to some leading distributors and Registered Investment Advisers to understand their perspective on whether these trips are useful for them. Here's what they have to say.

Some trips are genuinely meant for learning and development. These events are an ideal platform for fund managers to share their thought process with distributors. Otherwise, how can fund managers address 500 distributors at one time? They can address through a conference call but it won't be as effective. Such events are useful for new distributors to learn about the business and learn from veteran distributors. - **Vinod Jain, Founder, Jain Investment**

Advisers need to continuously upgrade their knowledge and keep abreast with the latest developments in the market to be able to have a conversation with clients. Not all advisers are able to dedicate time for learning and development during normal course of work, so such events work as a catalyst for the same. Such events also work as a great networking and learning platform for advisers where they get to understand and learn the best practices of different advisers. Advisers based in Mumbai can meet fund managers personally but those operating from smaller towns do not get this opportunity. Therefore, during such events, advisers from across the country get to interact with the top management of the fund house. - **Harshvardhan Roongta, Principal Financial Planner, Roongta Securities**

Distributors are rewarded and recognized at such events. Being recognized by the top management of a fund house in front of your peers motivates distributors to keep up their work. This practice is prevalent in all industries - be it medical or automobile. We get to voice our opinion and understand the state of market at such events. - **Ritesh Sheth, Director, Tejas Consultancy**

I agree that distributors get to learn from fund managers at such events. That said, there is an inherent conflict in selling funds which qualify for junkets. Why would you sell a multi cap new fund offer with no track record when there are so many existing funds with a proven track record? I believe sales driven incentives are not in the interest of investors. These are marketing tools designed to entice distributors to push their products. There is a need for self-regulation. If the industry does not regulate itself then SEBI will definitely step in. - **Suresh Sadagopan, Founder, Ladder 7 Financial Advisories.**

I had qualified for a foreign trip for an insurance firm. It was purely a junket. No official from the insurance firm was present with us. We reached the hotel and were allotted a tour guide for sightseeing. There was no presentation or learning. We also had the option of bringing our families or enquiring the travel voucher. I find the junkets arranged by mutual funds are comparatively educational in nature. We hardly get time to go out of the hotel as the entire day is occupied by presentations from fund managers and motivational speakers. I have attended many AMC junkets and found them purely educational. Of course, we go for sightseeing, but it is on our own expense. - **Anup Patel, Founder, Patel Investments**

SEBI has not asked fund houses to stop fund manager meetings with distributors. Fund houses have many ways (fact sheets, videos, conference calls, blogs) through which they can share views of the top management with distributors. These junkets were being organized in the garb of training for achieving sales targets. I know many high net worth individuals who used to churn portfolio every year to get kickbacks from distributors. All this will end now. – **as told by a Mumbai-based RIA wishing anonymity.**

Any incentive which could potentially influence the behavior of a service provider is questionable. Suppose a doctor goes on an overseas seminar arranged by a pharmaceutical company to learn from a world renowned doctor. If the patient comes to know about it, he/she will think that the doctor has gone on a junket for prescribing the company's medicines. So it is about how the customer interprets. We believe any incentives which could potentially influence distributors to recommend certain products over others takes away the trust in a relationship and is therefore avoidable. – **Vishal Dhawan, Founder, Plan Ahead Wealth Advisors**

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