

Liquid funds may allow instant redemptions

Sebi exploring if investors can withdraw Rs 2 lakh the same day

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Mumbai: With bank deposit rates trending down due to demonetization, the mutual fund industry wants to make most of it.

More fundhouses are looking to make their liquid funds more 'liquid' by allowing instant redemptions and positioning them as an alternative to FDs.

At present, liquid fund redemptions can take up to 48 hours.

While some fundhouses already allow investors instant withdrawal, markets regulator Sebi is looking to make it mandatory for all to give that option to investors, say industry officials.

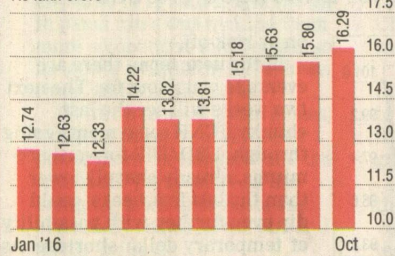
The Securities and Exchange Board of India (Sebi) wants to explore if retail investors can be permitted to withdraw up to a certain sum (Rs 2 lakh) from liquid funds instantly.

Savings bank accounts usually pay 4% interest but those returns are taxed. Liquid funds usually give between 5.5% and 8% in a year. On a post-tax basis, liquid funds are far more competitive. If such funds are held for more than three years, gains qualify for long-term capital gains tax of 20% with indexation benefit on the original investment.

However, the liquidity of such products was a factor that deterred many investors, since one had to wait for 24-48 hours for redemption, and even longer if the request to sell units comes on a non-working day. "The regulator

ASSETS UNDER MANAGEMENT

Rs lakh crore



is studying this so that instant redemptions can be done," said a senior industry official.

As of now, two fundhouses offer this type of facility in their debt funds. Reliance Mutual Fund promises redemptions within maximum 30 minutes when it comes to Reliance Money Manager Fund. It has also enabled cash withdrawal facility at Visa-enabled ATMs and purchase transactions at merchant establishments just like a regular debit card in India for two schemes.

DSP BlackRock has introduced instant redemption facility under DSP BlackRock Money Manager Fund with effect from October 17. "It takes less than a minute to get redemption. We use Immediate Payment Service provided by various banks," said a DSP BlackRock official.

Other fundhouses like ICICI Prudential and Tata are also said to be working on introducing instant redemption facility in near future, industry sources say.

"Birla Sun Life MF is working on instant redemption of funds," says a senior industry official.

There are some other products in the market that give predictable cash flows to investors.

DHFL Pramerica MF has a feature called Money Back plan where debt fund investors are allowed to regularly redeem units, to set up regular income in a tax-efficient manner. However, the instant redemption of funds is expected to change the game completely, and make debt products narrow the gap with bank deposits. Financial consultant Sandeep Singh said, "With deposit rates dropping, the savings bank rate of 4% should not be held as a given for long. The speed of redemption of proceeds is the number two priority for investors. Both bank deposits and liquid funds are extremely safe, but if redemptions happen on same day that can transform the saving habits of many investors."