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What is the difference between direct & regular mutual funds?

As per the Securities and Exchange Board of India (SEBI), every mutual fund offered by a fund house comes in two variants: regular & direct. Both have their own set of advantages & disadvantages.

When it comes to investing in Mutual Funds you generally have two options; Regular plan & Direct plan. If you invest via distributor you get a regular plan & if you invest via RIA's or Directly in Mutual Fund Schemes you get a direct plan.
A regular plan differs from direct plan in terms of the cost structure. The cost associated with regular plan translates into a higher expense ratio which includes the income earned by the distributor in the form of distribution or transaction fees. This added cost which is passed on to the investors who invest via regular plan. Hence, as the expense ratio in a direct plan is lower, it has a higher NAV as compared to regular plans.

Salient Features

- **How to Switch:**

While the process depends on the respective AMC's website, as a standard, switch option can be conducted online or in person by visiting the nearest branch If you are not comfortable with the online switching procedure, then you can also switch funds offline. To switch offline or in person you will need to visit the nearest branch of the fund house and fill and submit a switch form. Once they process it, they will send you an updated account statement. You can also get this done via your distributor.

- **Net Asset Value (NAV):**

The TER (Total Expense Ratio) of any mutual fund plan is adjusted from the NAV. The NAVs of direct plans are higher than the regular plans since TERs of regular plans are higher than those of direct plans. In other words, the investment value after you make an investment will generally be higher in a direct plan compared to a regular plan.

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- **Returns:**

The difference of TER between regular & direct plans varies from one AMC to another and scheme to scheme, largely depending upon the commission structure of AMCs. The commissions or brokerage paid for equity funds are generally higher than debt funds. The difference in TERs between regular & direct plans can range from 0.5% to 1%. Although this sounds minuscule, it directly affects the returns of regular and direct plans. When you are investing for a long term and you compare returns of mutual fund direct vs regular plans, the direct plans can add up to big amount of difference in returns on your investment.

Direct plans have lesser costs and give higher returns over regular plans. However, you need to have some investment experience and knowledge to pick and invest in the right direct mutual fund plans.
Whenever you are making a switch from a regular plan to a direct plan or vice versa, always remember that switching of funds means selling your current units and purchasing units under the new scheme. While switching, there may be certain exit loads applicable. You also need to consider the tax implications. Hence, be wise when making a switch decision. Consider and reflect on your overall financial goals before making any decision.

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