Online ISSN: 2455 - 0256 Print ISSN 2394 – 9805

INDIAN MUTUAL FUND INDUSTRY- THE ROAD AHEAD

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Abstract

The Indian Mutual Fund industry is one of the fastest growing and most competitive segments of the financial sector. During last one decade or so, role of Indian mutual funds industry as a significant financial service in financial market has really been noteworthy. In fact, Mutual funds have emerged as an important segment of financial market of India, especially as a result of the initiatives taken by the Govt. of India for resolving problems relating to UTI's US-64 and to liberalize tax liabilities on the incomes earned by the mutual funds. They now play a very significant role in channelizing the saving of millions of individuals into the investment in equity and debt instruments.

The present article throws a light on the Indian Mutual Fund Industry with the objective to highlight the advantages and problems which are faced by it. The present study is based mainly on the data collected from secondary sources which were published and printed material of the mutual fund. It also outlines some of the suggestions which will help in growth and development of the mutual fund industry.

Key Words: Mutual Fund, Financial Services, Financial Market, AUM.

Introduction

Mutual funds represent perhaps the most appropriate investment opportunity for most investors. The Indian mutual fund industry has started opening up many of the exciting investment opportunities to Indian investors. We have started witnessing the phenomenon of more savings now being entrusted to the funds than to the banks. Despite the expected continuing growth in the industry, mutual funds are still a new financial intermediary in India. Hence, it is important that the investors, the mutual fund agents/distributors, the investment advisors and even the fund employees acquire better knowledge of what they cannot and how they function differently from other intermediaries such as the banks.

Mutual funds are type of agencies which pool or combined together the investor's fund and invest in diversified securities, thus, reducing risks. A Mutual fund is formed by the coming together of a professional organization to manage it through investments in capital market. Mutual fund is basically a risk reducing pool. Risk reduction is achieved by diversification of the portfolio.

Diversification means that a Mutual Fund invests in a large number of shares and financial instruments thereby lowering the overall risk. Further the fund manager's investment decisions are based on the basis of intensive research and are backed by informed judge mend and experience. Although Mutual Fund units are noted on the market, a mutual fund represents a portion of the total corpus or subject it manages under a scheme. Further a Mutual Fund distributes everything that it earns to the investors. Expenses relating to the fund however are changed to the fund. A Mutual Fund collects money from investors and invests it for them. The fund however, has to disclose the full details of the investment scheme in advance to the investors. The entire income or profits are distributed to the investors in proportion to their investment.

History of Mutual Funds in India

The first Indian mutual fund was set up in 1963, when the Government of India created the Unit Trust of India (UTI). Until 1987, UTI enjoyed a monopoly in the Indian mutual fund market and sold a range of mutual funds through a network of financial intermediaries. At the end of 1988 UTI had Rs. 6,700 crores of assets under management. In 1987, the Government of India permitted public sector banks and the Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC) to enter the mutual fund industry. The State Bank of India's SBI Mutual Fund was the first such mutual fund to be established in 1987. Canara Bank set up Canbank Mutual Fund shortly after in the same year, followed by funds from Punjab National Bank and Indian Bank in 1989, Bank of India in 1990 and Bank of Baroda in 1992. The LIC established its mutual fund in 1989 and the GIC in 1990. At the end of 1993, the mutual fund industry had assets under management of Rs. 47,004 crores.In 1993, with the creation of SEBI and better regulation, transparency and liberalization of capital markets (which included the creation of the NSE and the NSDL), the private sector was allowed to enter the mutual fund industry. Kothari Pioneer Mutual Fund (now merged into Franklin Templeton Investments) was the first private sector mutual fund to be registered in July 1993. In the following years, international giants in the industry as well as Indian corporate and industrial families setting up their own mutual funds, purchasing existing fund companies or merging with them. At the end of January 2003, there were 33 mutual funds with assets totaling Rs. 1, 21,805 crores. The UTI still led the pack with Rs. 44,541 crores worth of assets. In February 2003, faced with financial mismanagement, opaque bookkeeping and huge, growing liabilities at the UTI, the Government of India suspended redemptions, guaranteed the assets, unveiled a comprehensive suite of reforms and repealed the Unit Trust of India Act 1963·The UTI was split into two parts. One was called the "Specified Undertaking of the Unit Trust of India" with Rs. 29,835 crores of assets largely belonging to the UTI's Unit 64 fund. The fund was rumored to own property, commodities and a whole range of unconventional and often undocumented assets. The fund would attract millions of investors by promising generous annual dividends that were far in excess of the returns on its actual portfolio. This Specified Undertaking of Unit Trust of India functioned under an administrator appointed by Government of India, outside of SEBI's purview, until it was eventually liquidated in 2008. The Government asked the SBI, PNB, BOB and LIC to step in as sponsors of the second part, now called UTI Mutual Fund (in addition to being sponsors of their own mutual funds) under SEBI's regulation. As of 30 June 2013, the Indian mutual fund industry manages assets worth approximately Rs.847, 000 crores.

Advantages Of Mutual Funds

Mutual funds have designed to provide maximum benefits to investors, and fund manager have research team to achieve schemes objective. Assets Management Company has different type of sector funds, which need to proper planning for strategic investment and to achieve the market return.

1. Portfolio Diversification

Mutual Funds invest in a well-diversified portfolio of securities which enables investor to hold a diversified investment portfolio (whether the amount of investment is big or small).

2. Professional Management

Fund manager undergoes through various research works and has better investment management skills which ensure higher returns to the investor than what he can manage on his own.

3. Less Risk

Investors acquire a diversified portfolio of securities even with a small investment in a Mutual Fund. The risk in a diversified portfolio is lesser than investing in merely 2 or 3 securities.

4. Low Transaction Costs

Due to the economies of scale (benefits of larger volumes), mutual funds pay lesser transaction costs. These benefits are passed on to the investors.

5. Liquidity

An investor may not be able to sell some of the shares held by him very easily and quickly, whereas units of a mutual fund are far more liquid.

6. Choice of Schemes

Mutual funds provide investors with various schemes with different investment objectives. Investors have the option of investing in a scheme having a correlation between its investment objectives and their own financial goals. These schemes further have different plans/options.

7. Transparency

Funds provide investors with updated information pertaining to the markets and the schemes. All material facts are disclosed to investors as required by the regulator.

8. Flexbillty

Investors also benefit from the convenience and flexibility offered by Mutual Funds. Investors can switch their holdings from a debt scheme to an equity scheme and vice-versa. Option of systematic (at regular intervals) investment and withdrawal is also offered to the investors in most open-end schemes.

9. Safety

Mutual Fund industry is part of a well-regulated investment environment where the interests of the investors are protected by the regulator. All funds are registered with SEBI and complete transparency is forced.

Problems Facing By Indian Mutual Funds Industry

Over the years mutual funds have become a significant mechanism for financial intermediation in the economy. But as comparison to the degree of growth and development of mutual funds in the developed economies like U.K., USA, Japan, Australia, etc. Funds in India are at the adolescent stage. The mutual funds in India have not been able to perform up to the desired level and in many cases have expressed their financial inability to repay the invested capital along with promised rate of returns. The Indian Mutual Funds are facing some of the main problems which are highlighted below:

1. Crisis occur due to Liquidity

Mutual Funds in India have faced the problem of liquidity. The investors are not able to withdraw from some of the schemes; there is no easy way for exit. Also there is a 'Bad delivery', which caused a lot of problems.

2. Lack of Innovation

The Mutual funds schemes are not very innovative according to the risk, liquidity and choice of the investors.

3. Inadequate Research

The inadequate research facilities are not provided to the Mutual funds schemes in India. Most of the funds depend upon the external research and so on attention was paid for such effort. So to be successful and more effective in future they should spend money on research and development also.

4. Conventional Pattern of Investment

The pattern of investment in Mutual funds in India is very conservative. They have not been able to diversify the risk to a large extent, which has caused low returns on investments.

5. No Provision for Performance Guarantee

No such provision has been provided by the Mutual Funds in India to the investors. So the investors take less interest due to their erosion of capital.

6. Inadequate Disclosures

There have not been adequate and timely disclosures of material information to the mutual funds in India.

7. Delays in Service

Mutual funds in India have also not been able to provide quick and adequate service to the investors. In many cases, there is no response to the investor's grievances.

8. No Rural Sector Investment Base

Indian Mutual funds so far have not been able to create rural sector investment base. Sufficient efforts have not been made to educate the potential investors. Mutual funds should launch investor's education programmes and expand their activities.

9. Poor Risk Management

According to a recent survey conducted by Price Waterhouse Coopers, about 50% of the mutual funds are not managing risk properly and another 50% do not have documented risk procedures or dedicated risk managers. Thus, the mutual funds should have proper risk management.

Suggestions to Improve Mutual Funds

1. **Introduce micro denomination SIP schemes:** The mutual funds industry should have micro denomination SIP schemes for values such as Rs. 20 per month or Rs. 50 per month to ensure that the lowest segment of society is able to enter the mutual fund market.
2. **Make post offices centres for mutual fund distribution:** Post offices, which are located in almost all villages and in remote areas, can be used to distribute mutual funds. This will ensure financial inclusion in the real sense as it will enable reach to the poorest and farthest segments of the country.
3. **Provide incentive schemes:** The government should work out some incentive schemes for those mutual funds which achieve the targets for

specified amount of SIPs from villages and towns beyond the top 15 cities. This will ensure that more business comes from small towns and that financial inclusion reaches the desired target market.

4. **Postal agents to be compulsorily made independent financial advisors:** Mutual funds should make postal agents their independent financial advisors which will ensure that the products reach the grassroots. The funds can be provided targets regarding the number of postal agents who must become independent financial advisors.

Conclusion

The Indian mutual fund industry finds itself in an economic landscape which has undergone rapid changes over the past years. Coupled with a steep decline in the value of the Indian rupee, the mutual fund industry now finds itself in a capricious global economic environment. However, there is strong reason to believe that the Indian mutual fund industry has not yet seen its global peak and if proper measures are taken, the industry could get back on its former growth path .While the Indian mutual fund industry has registered a sixfold increase in AUM over the last ten years, it is yet to emerge as the preferred investment choice for retail investors in India .According to AMFI report,Average Assets Under Management (AAUM) of Indian Mutual Fund Industry for the month of January 2017 has crossed 17.83 lakh crore, while the Assets Under Management (AUM) as on January 31, 2017 stood at 17.37 lakh crore The AUM of the Indian MF Industry has grown from 3.26 trillion as on 31st March 2007 to 17.83 trillion as on 31st January, 2017, a five-fold increase in a span of less than 10 years. The MF Industry's AUM has more doubled in the last 4 years from 5.87 trillion as on 31st March, 2012 to12.33 trillion as on 31st March, 2016. The Industry's AUM had crossed the milestone of 10 Trillion (10 Lakh Crore) for the first time in May 2014 and in a short span of two years and eight months, the AUM size has crossed 17.37 lakh crore last month. The total number of accounts (or folios as per mutual fund parlance) as on January 31, 2017 stood at 5.38 crore (53.8 million), while the number of folios under Equity, ELSS and Balanced schemes, wherein the maximum investment is from retail segment stood at 4.29 crore (42.9 million).

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