4 Resource Mobilization by Indian Mutual Fund Industry

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Abatract

Mutual funds play a vital role in resource mobilization and its efficient allocation to the productive sources of economic system. In this progress of development, mutual funds have emerged as strong financial intermediaries and are playing an important role in bringing stability to the financial system and efficiency to the resource allocation process. Mutual funds industry today is one of the most preferred investment avenues in India.

This paper analyses resource mobilization by mutual fund industry in India after briefly presenting the evolution of mutual funds in India. Then, the researchers have discussed the challenges of mutual fund industry and finally, the way ahead for mutual fund industry in India.

Key words: *India,Mutual Funds, Resource Mobilization, Net Assets.*

Introduction:

Indian financial system is one of the largest financial system in the world with a broad variety of banking, financial and capital market institutions and instruments. Mutual fund is a mechanism by which, the savings of large number of small investors are polled together and collective instrument is made with the objective of attractive yield and capital appreciation, holding the safety and liquidity as prime parameters. Generally mutual fund is a tool to make financial investments in the financial instruments or assets of the corporate sector for mutual benefits of the members.

Mutual fund industry today is one of the most attractive instrument avenues in India. Mutual fund is a good investment option for the medium and small investors who have limited resources and do not have a professional knowledge about the stock market and other investment opportunities.

Mutual fund industry started in India with the establishment of Unit Trust of India (1964), which was the only one player in the mutual fund industry up to 1987. In 1987, the government permitted public sector banks and financial institutions to join the fray. From 1993 onwards the industry was opened up for private sector and foreign players have started setting up mutual fund in India.

Review of literature:

Verma (1990, 1992) in a study on mutual fund covers the conceptual and regularity aspect of India on Mutual fund with some information task and guidelines to the investors in selection of mutual fund. Volkman and Wohar (1995) extend this analysis to examine factors that impact performance persistence and shows performance persistence is negatively related to size and regularly related to level of management fees.

Sudhakar and Sasikumar (2005) opined that most of the growth oriented mutual funds have been able to deliver better return than the benchmark indicators. Growth oriented mutual funds are expected to offer the advantage of diversification, market timing selectively.

Muthappan.P.K and Damodharan. E(2006) in their study, Risk-Adjusted Performance Evaluation of Indian Mutual Funds Schemes, investigated the Indian mutual fund schemes in the framework of risk and returns relationship during the study period April1 1995 to March31, 2000. The empirical findings of that study showed that the Indian mutual funds were not properly diversified during the study period.

Meenu Verma(2007) investigated the concept of Investment Style Analysis of Mutual Funds. The author conducted a survey among various financial advisors and fund managers from various asset Management companies. It was found that majority of the mutual funds managers adopt the security specific investment style and prefer the Bottom-Up Approach Style while selecting stocks.

Shankar (2008) found that the mutual fund industry is mostly caused by over-reaction of regulatory authorities. Non-equity assets under management were about Rs. 4,00,000 crores in April,2008 declined to Rs. 2,50,000 crores in October-2008. This may due to environmental issues caused by events outside India.

Parihar, Sharma and Singh(2009) revealed that mutual funds are financial intermediaries concerned with mobilizing savings of those who have surplus and the canalization of these savings in those avenues where there is a demand for funds.

Objective of the study:

The following are the specific objectives of the present study

1. To analyse the global mutual fund scenario.
2. To analyse the resource mobilization by mutual fund industry.
3. To analyse the sector wise resource mobilization by mutual fund industry.
4. To analyse scheme wise resource mobilization fund industry.

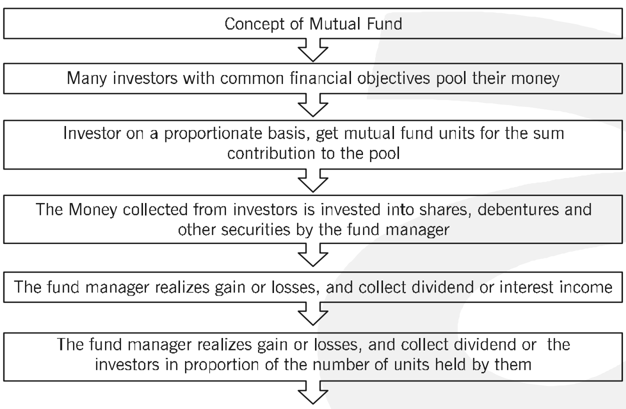
Methodology and Data Collection:

The present study is based on secondary data. The data collected from books, journals, various annual reports of Securities Exchange Board of India (SEBI), and various websites of the mutual fund companies etc.

Concept of Mutual Fund:

The chart below indicates the concept of mutual fund:

Chart 1



Source: Prepared by Researcher

Evolution of Mutual Funds Industry in India:

The origin of mutual funds industry in India can be traced in the enactment of the Unit Trust of India (UTI) Act in 1963. According to Association of mutual funds industry in India (AMFI), the evolution of the industry can be broadly divided into four phases, which mark its transition from the period when UTI enjoyed the total monopoly in the mutual funds industry to a period of competition. Today there are three different types of players operating in the Indian Market UTI, non-UTI public sector mutual funds and private sector mutual funds (including foreign mutual funds).

First Phase - 1964-1987

Unit Trust of India (UTI) was established in 1963 by an Act of Parliament. It was set up by the Reserve Bank of India and functioned under the Regulatory and administrative control of the Reserve Bank of India. In 1978 UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI. The first scheme launched by UTI was Unit Scheme 1964. At the end of 1988 UTI had Rs. 6,700 crores of assets under management. The Industrial Development Bank of India (IDBI) took over the regulatory and administrative management of the same.

Second Phase - 1987-1993 (Entry of Public Sector Funds)

1987 marked the entry of non-UTI, public sector mutual funds set up by public sector banks and Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC). SBI Mutual Fund was the first non-UTI Mutual Fund established in June 1987 followed by Canbank Mutual Fund (Dec 87), Punjab National Bank Mutual Fund (Aug 89), Indian Bank Mutual Fund (Nov 89), Bank of India (Jun 90), Bank of Baroda Mutual Fund (Oct 92). LIC established its mutual fund in June 1989 while GIC had set up its mutual fund in December 1990.

At the end of 1993, the mutual fund industry had assets under management of Rs. 47,004 crores.

Third Phase - 1993-2003 (Entry of Private Sector Funds)

With the entry of private sector funds in 1993, a new era started in the Indian mutual fund industry, giving the Indian investors a wider choice of fund families. Also, 1993 was the year in which the first Mutual Fund Regulations came into being, under which all mutual funds, except UTI were to be registered and governed. The erstwhile Kothari Pioneer (now merged with Franklin Templeton) was the first private sector mutual fund registered in July 1993.

The 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised Mutual Fund Regulations in 1996. The industry now functions under the SEBI (Mutual Fund) Regulations 1996.

The number of mutual fund houses went on increasing, with many foreign mutual funds setting up funds in India and also the industry has witnessed several mergers and acquisitions. As at the end of January 2003, there were 33 mutual funds with total assets of Rs. 1,21,805crores. The Unit Trust of India with Rs. 44,541 crores of assets under management was way ahead of other mutual funds.

Fourth Phase - since February 2003

In February 2003, following the repeal of the Unit Trust of India Act 1963 UTI was bifurcated into two separate entities. One is the Specified Undertaking of the Unit Trust of India with assets under management of Rs. 29,835 crores as at the end of January 2003, representing broadly, the assets of US 64 scheme, assured return and certain other schemes. The Specified Undertaking of Unit Trust of India, functioning under an administrator and under the rules framed by Government of India and does not come under the purview of the Mutual Fund Regulations.

The second is the UTI Mutual Fund, sponsored by SBI, PNB, BOB and LIC. It is registered with SEBI and functions under the Mutual Fund Regulations. With the bifurcation of the erstwhile UTI which had in March 2000 more than Rs. 76,000 crores of assets under management and with the setting up of a UTI Mutual Fund, conforming to the SEBI Mutual Fund Regulations, and with recent mergers taking place among different private sector funds, the mutual fund industry has entered its current phase of consolidation and growth.

The Global Mutual Funds Scenario:

Table 1 shows the position of total net assets of Indian mutual funds in the world during 2006-2013.The net assets of the mutual fund industry in India accounted for just 0.36 per cent of the total net assets managed by the mutual funds across the globe. The share of Indian mutual funds in the GDP was seven per cent. When compared to the share of USA (77 per cent) and Brazil (40.3 per cent), the Indian mutual funds stand nowhere. Out of 47 countries mentioned in table, Indian mutual fund industry was lagging behind 34 countries in terms of net assets. In the year 2013 US could garner around 50 per cent world total net assets followed by Luxembourg (10 per cent), Australia (5.4 per cent), UK (3.88 per cent) and Japan (2.58 per cent) respectively. Inmajority of the counties there is an increasing trend in the total net assets except few counties like Greece (-76 per cent), Italy (-52 per cent) and France (-13 per cent). Compared to the 2006 year Indian mutual funds have recorded highest increase in the total net assets (85 per cent) which is much more than the increase in the total net assets of the world i.e., 38 per cent. Compared to the previous year growth rate of countries mentioned above, the growth rate of net assets of the Indian mutual fund industry was much higher.

India is undoubtedly emerging as the next big investment destination, riding on a high savings and investment rate, as compared to other Asian economies. As per a report authored by Price Waterhouse Coopers (PwC) “The World in 2050”, the average real GDP growth in India was likely to be in the range of 5.8% between 2007-50, (the actual average GDP growth between 2007-13 has been 7.6%) with per capita income rising to USD 20,000 from the current USD 2,932.

Table1:Worldwide Total Net Assets of Mutual Funds

(Millions of U.S. Dollars)

	2006	2007	2008	2009	2010	2011	2012	2013
World	$2,18,08,826	$2,61,29,767	$1,89,18,982	$2,29,45,327	$2,47,09,854	$2,37,95,808	$2,68,35,850	$3,00,49,934
Americas	1,14,70,431	1,34,21,360	1,05,80,914	1,25,78,297	1,35,97,527	1,35,29,258	1,51,38,443	1,71,56,409
Argentina	6,153	6,789	3,867	4,470	5,179	6,808	9,185	11,179
Brazil	4,18,771	6,15,365	4,79,321	7,83,970	9,80,448	10,08,928	10,70,998	10,18,641
Canada	5,66,298	6,98,397	4,16,031	5,65,156	6,36,947	7,53,606	8,56,504	9,40,580
Chile	17,700	24,444	17,587	34,227	38,243	33,425	37,900	39,291
CostaRica	1,018	1,203	1,098	1,309	1,470	1,266	1,484	1,933
Mexico Trinidadand	62,614	75,428	60,435	70,659	98,094	92,743	1,12,201	1,20,518
Tobago	N/A		N/A	5,832	5,812	5,989	6,505	6,586
UnitedStates	1,03,97,877	1,19,99,734	96,02,574	1,11,12,674	1,18,31,334	1,16,26,493	1,30,43,666	1,50,17,682
Europe	78,03,877	89,34,861	62,31,115	75,45,535	79,03,389	72,20,298	82,30,059	93,74,830
Austria	1,28,236	1,38,709	93,269	99,628	94,670	81,038	89,125	90,633
Belgium	1,37,291	1,49,842	1,05,057	1,06,721	96,288	81,505	81,651	91,528
Bulgaria	N/A	N/A	226	256	302	291	324	504
Czech Republic	6,488	7,595	5,260	5,436	5,508	4,445	5,001	5,131
Denmark	95,601	1,04,083	65,182	83,024	89,800	84,891	1,03,506	1,18,702
Finland	67,804	81,136	48,750	66,131	71,210	62,193	73,985	88,462
France	17,69,258	19,89,690	15,91,082	18,05,641	16,17,176	13,82,068	14,73,085	15,31,500
Germany	3,40,325	3,72,072	2,37,986	3,17,543	3,33,713	2,93,011	3,27,640	3,82,976
Greece	27,604	29,807	12,189	12,434	8,627	5,213	6,011	6,742

	2006	2007	2008	2009	2010	2011	2012	2013
World	$2,18,08,826	$2,61,29,767	$1,89,18,982	$2,29,45,327	$2,47,09,854	$2,37,95,808	$2,68,35,850	$3,00,49,934
Hungary	8,472	12,573	9,188	11,052	11,532	7,193	8,570	12,158
Ireland	8,55,011	9,51,371	7,20,486	8,60,515	10,14,104	10,61,051	12,76,601	14,39,867
Italy	4,52,798	4,19,687	2,63,588	2,79,474	2,34,313	1,80,754	1,81,720	2,15,553
Liechtenstein	17,315	25,103	20,489	30,329	35,387	32,606	31,951	36,235
Luxembourg	21,88,278	26,85,065	18,60,763	22,93,973	25,12,874	22,77,465	26,41,964	30,30,665
Malta	N/A		N/A	N/A	N/A	2,132	3,033	3,160
Netherlands	1,08,560	1,13,759	77,379	95,512	85,924	69,156	76,145	85,304
Norway	54,075	74,709	41,157	71,170	84,505	79,999	98,723	1,09,325
Poland	28,959	45,542	17,782	23,025	25,595	18,463	25,883	27,858
Portugal	31,214	29,732	13,572	15,808	11,004	7,321	7,509	9,625
Romania	247	390	326	1,134	1,713	2,388	2,613	4,000
Russia	5,659	7,175	2,026	3,182	3,917	3,072	N/A	N/A
Slovakia	3,168	4,762	3,841	4,222	4,349	3,191	2,951	3,292
Slovenia	2,486	4,219	2,067	2,610	2,663	2,279	2,370	2,506
Spain	3,67,918	3,96,534	2,70,983	2,69,611	2,16,915	1,95,220	1,91,284	2,48,234
Sweden	1,76,968	1,94,955	1,13,331	1,70,277	2,05,449	1,79,707	2,05,733	2,52,878
Switzerland	1,59,517	1,76,282	1,35,052	1,68,260	2,61,893	2,73,061	3,10,686	3,97,080
Turkey	15,462	22,609	15,404	19,426	19,545	14,048	16,478	14,078
UK	7,55,163	8,97,460	5,04,681	7,29,141	8,54,413	8,16,537	9,85,517	11,66,834
AsiaandPacific	24,56,492	36,78,325	20,37,536	27,15,234	30,67,323	29,21,276	33,22,198	33,75,828
Australia	8,64,234	11,92,988	8,41,133	11,98,838	14,55,850	14,40,128	16,67,128	16,24,081
China	N/A	4,34,063	2,76,303	3,81,207	3,64,985	3,39,037	4,37,449	4,79,957
HongKong	6,31,055	8,18,421	N/A	N/A	N/A	N/A	N/A	N/A
India	58,219	1,08,582	62,805	1,30,284	1,11,421	87,519	1,14,489	1,07,895
Japan	5,78,883	7,13,998	5,75,327	6,60,666	7,85,504	7,45,383	7,38,488	7,74,126
Korea,Rep.	2,51,930	3,29,979	2,21,992	2,64,573	2,66,495	2,26,716	2,67,582	2,85,173
NewZealand	12,892	14,925	10,612	17,657	19,562	23,709	31,145	34,185
Pakistan	2,164	4,956	1,985	2,224	2,290	2,984	3,159	3,464
Philippines	1,544	2,090	1,263	1,488	2,184	2,363	3,566	4,662
Taiwan	55,571	58,323	46,116	58,297	59,032	53,437	59,192	62,286
Africa	78,026	95,221	69,417	1,06,261	1,41,615	1,24,976	1,45,150	1,42,868
SouthAfrica	78,026	95,221	69,417	1,06,261	1,41,615	1,24,976	1,45,150	1,42,868

Resource Mobilization:

It is observed from table 2 that resource mobilized by mutual fund industry is increased from Rs. 8,39,708 crores in the year 2004-05 to Rs.97,68,100 crores during 2013-14 i.e total of Rs.5,65,01,279 crores (100 percent). The domination of private sector mutual funds in the total resource mobilizes by all the mutual funds in the country could be clearly observed from the below table. Its share rose from 87.70 percent in 2004-05 to 82.41 percent in 2013-14 i.e total 80.72 percent. During the same period funds mobilized by public sector mutual funds registered a growth from 6.74 percent to 9.38 percent i.e 11.06 percent. Lastly UTI mutual fund increased from 5.56 percent in the year 2004-05 to 8.80 percent during the year 2009-10 and decreased by 7.76 percent in 2011-12 and again increased from 8.21 percent in the year 2013-14.i.e. total 8.22 percent.

Table 2: Sector-Wise Total Resource Mobilization by Mutual Fund Industry

(Rs. In Crores)

Year	Private Sector	Public Sector	UTI	Total
2004-05	7,36,463(87.70)	56,589(6.74)	46,656(5.56)9	8,39,7089(100)
2005-06	9,14,703(83.29)	1,10,319(10.05)	73,127(6.66)	10,98,149(100)
2006-07	15,99,873(82.53)	1,96,340(10.13)	1,42,280(7.34)	19,38,493(100)
2007-08	37,80,752(84.69)	3,46,126(7.75)	3,37,498(7.56)	44,64,376(100)
2008-09	42,92,750(79.10)	7,10,472(13.10)	4,23,131(7.80)	54,26,353(100)
2009-10	76,98,483(76.84)	14,38,688(14.36)	8,81,851(8.80)	1,00,19,022(100)

Year	Private Sector	Public Sector	UTI	Total
2010-11	69,22,924(78.14)	11,52,733(13.01)	7,83,858(8.85)	88,59,515(100)
2011-12	56,83,743(83.34)	6,13,482(8.99)	5,22,453(7.67)	68,19,678(100)
2012-13	59,27,946(81.57)	7,06,589(9.72)	6,33,350(8.71)	72,67,885(100)
2013-14	80,49,397(82.41)	9,16,351(9.38)9(	80,49,397(8.21)	97,68,100(100)
Total	46,46,556(8.22)	62,47,689(11.06)	4,56,07,034(80.72)	5,65,01,279(100)

Source: Various Annual Reports of SEBI

Table 3 shows the scheme-wise resource mobilization by mutual fund industry. During the last ten year period total resource mobilization by mutual fund companies are Rs. 5,65,01,279 Crores. Out of which highest scheme wise resource mobilized of mutual fund companies are income/debt scheme i.e 98.6 percent, followed by growth/equity scheme i.e 1.46 percent, balanced scheme i.e 0.09 percent, exchange traded fund i.e 0.08 percent and lastly fund of funds 0.01 percent.

Table 3: Scheme-wise resource mobilization by mutual fund industry

(Rs.in Crores)

Year	Income/debt scheme	Growth/equity scheme	Balance scheme	Exchange traded	Fund of funds scheme	Total
2004-05	7,98,673(95.11)	37,280(4.44)	3,755(0.45)	00(00)	00(00)	8,39,708(100)
2005-06	10,08,129(91.80)	86,014(7.83)	4,006(0.37)	00(00)	00(00)	10,98,149(100)
2006-07	18,39,668(94.90)	94,352(4.87)	4,473(0.23)	00(00)	00(00)	19,38,493(100)
2007-08	43,17,263(96.70)	1,26,287(2.83)	11,488(0.26)	9,338(0.21)	00(00)	44,64,376(100)
2008-09	53,83,367(99.21)	32,805(0.60)	2,695(0.05)	5,719(0.11)	1,767(0.03)	54,26,353(100)
2009-10	99,44,693(99.25)	64,714(0.65)	4,693(0.05)	3,535(0.04)	1,387(0.01)	1,00,19,022(100)
2010-11	87,77,034(99.07)	66,592(0.75)	7,490(0.08)	7,709(0.09)	690(0.01)	88,59,515(100)
2011-12	67,54,113(99.04)	50,619(0.74)	7,490(0.08)	8,563(0.13)	1,356(0.02)	68,19,678(100)
2012-13	72,13,578(99.25)	43,364(0.60)	5,205(0.07)	5,052(0.06)	686(0.02)	72,67,885(100)
2013-14	97,09,762(99.40)	46,093(0.47)	3,435(0.34)	6,869(0.07)	1,941(0.02)	97,68,100(100)
Total	5,57,46,280(98.6)	6,48,120(1.46)	52,267(0.09)	46,785(0.08)	7,827(0.01)	5,65,01,279(100)

Source: various annual reports of SEBI

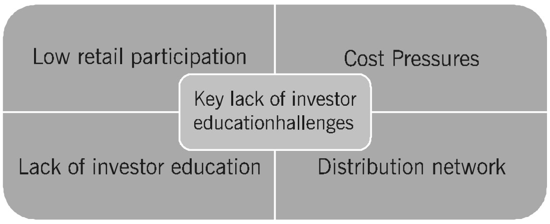
Challenges which continue to persist are …

There are continuing concerns that the industry has been grappling with over a considerable period of time.

- Under-penetrated population
- Inaccessibility in smaller towns and cities due to lack of an efficient distribution network
- Heavy reliance on institutional sales
- Low financial literacy levels and

• Cost pressures emanating as a result of inefficiencies in systems and processes

Chart 2



Source: Prepared by Researcher

The industry should start taking appropriate measures to deal with these challenges, so that growth is not hampered in any way, and the sector is free to scale greater heights, and achieve greater penetration.

The Way Forward…..

1. The Mutual fund industry needs to have an ‘outside-in’ perspective as compared to ‘inside-out’ perspective. Understanding investors’ needs should be followed by a product channel alignment.

2. A number of change catalysts discussed in the previous section like technology, investment in B-15 cities, investment adviser etc. would be required to help ensure the overall objective of prudent growth and profitability.

3. Increasing financial literacy will be the key to unlock the doors to B-15 and also to remove the perception that equates mutual fund to only equity. Investor awareness campaigns should be conducted to increase the Asset under Management (AUM) in smaller cities which would help industry to progress in a holistic manner. Asset Management Companies (AMCs), distributors and Independent Financial Advisors (IFAs)are all doing their bit but Association of mutual funds in India (AMFI) and SEBI should also play a major role in creating awareness.

4. Knowledge about mutual fund industry should be included in educational curriculum.

5. Fund houses may need to find and partner with the right distributor to make the products available to investors in smaller cities. Therefore, Banks and IFA scould play a pivotal role in reaching the investor base.

6. For future growth, tax could act as an enabler as tax benefits can be a pull factor for investors.

7. Technology can act as a key enabler and help the fund houses reach investors at a low cost and more efficient manner. AMCs need to make the relevant investments in technology to help reach investors to help ensure transactions on the channels of their choice.

8. The future potential of Investment Advisors could be decided by Investors and the regulators.

These measures should help the industry on the path to better growth. However, we need all stakeholders viz. asset management companies, distributors, regulators to work together to help ensure the common goal of growth along with profitability is achieved.

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