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A Study on Indian Mutual Fund Industry and Its Nature

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Abstract – Mutual Funds have been a significant source of investment in both government and corporate securities. It has been for the decades the monopoly of the state with UTI being the key player with invested funds exceeding Rs. 300 bn. (US $ 10 bn.). The state owned insurance companies also hold a portfolio of stocks. Presently, numerous mutual funds exist, including private and foreign companies. Banks - mainly state owned too have established Mutual Funds (MFs). Foreign participation in mutual funds and asset management companies permitted on a case-by-case basis.

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INTRODUCTION

THE SECURITY AND EXCHANGE BOARD OF INDIA (Mutual Funds) REGULATIONS,1996 defines a mutual fund as a " a fund establishment in the form of a trust to raise money through the sale of units to the public or a section of the public under one or more schemes for investing in securities, including money market instruments."

The Indian Capital Market has witnessed unprecedented developments and innovations particularly during the decades of 80s and 90s. These innovations, inter-alia, relate to new financial instruments, new financial institutions such as mutual funds, and variety of financial services like merchant banking, credit rating, factoring etc.

At the down of commercial history, Egyptians and Phoenicians sold shares in vessels and caravans in order to spread the risk of their perilous ventures. On the same lines the idea of Mutual Fund and its formal origin in Belgium (Society 'Generate' de Belgique, 1822) as investment Co. to finance investments in national instructress with high associated risks. Over a period of time such institutions nonpublic confidence, In 1931, the British Trust known as Municipal and General Securities Co. Ltd. (now known as M&G Group) was launched. Having about 1000 MFs in U.K.

In U.S.A., the idea took root in the beginning of the 20th century and there was little activity up to 1924, when three investments Co's were organized: Massachusetts Investors Trust, State Street Investment Corporation and U.S. and Foreign Securities Corporations. All these institutions are still operating.

Past World War II period gave a boost to Mutual Fund culture in U.S.A. as people not having the knowledge of how to invest on their own to reap the benefit of economic growth during this period. Subsequently Hundreds of mutual funds emerged and expanded their wings in many countries in Europe, the Far East and Latin America.

INDIAN SCENARIO

The origin of Mutual Fund Industry in India is with the introduction of the concept of MF by UTI in the year 1963. Though the Growth was slow but it accelerated from the year 1987 when non-UTI players entered the Industry.

In the past decade, Indian MF Industry had seen a dramatic improvement, both quality wise as well as quantity wise. Reacting to the needs for a more active mobilization of household savings to provide invertible resources to industry, the idea of first mutual fund in India is born out of the far sighted vision of Sri T. Krishnamachari the then Finance Minister. He wrote to the then Prime Minister Pundit Nehru Outlining the need for an institution which would serve as the conduct for these resources to the Indian Market and RBI was entrusted to create this special institution. While introducing Unit Trust of India (UTI) Bill in Parliament, Sri Krishnamachari observed, "I would Christen this attempt as an adventure in small savings and I am confident that we are embarking on this adventure with every hope of being successful". He highlighted UTI as "an opportunity for the middle and lower income groups to acquire without much difficulty property in the form of shares. UTI in 1964 started with a unit scheme popular as US-64.

Basically the history of mutual funds in India can be divided into five important phases:

(i) First phase of MF Industry (1963-1987)

(ii) Second phase of MF Industry (1987-1993)

(iii) Third phase of MF Industry (1993-1996)

(iv) Fourth phase of MF Industry (1996-1999)

(v) Fifth phase of MF Industry (1999-2002)

(i) **(1963-1987):** The Unit Trust of India was the sole player in the Industry created by an Act Parliament in 1963, UTI launched its first product, the Unit Scheme 1964, which is even today the single largest mutual fund scheme. UTI created a number of products such as monthly income plans, children's plans, equity-oriented schemes and offshore funds during this period. UTI managed assets of Rs. 6700 crore at the end of this phase.

(ii) **(1987-1993):** In 1987 public sector banks and financial institutions entered the mutual fund industry. SBI mutual fund was the first non UTI fund to be set up in 1987. Significant shift of investors from deposits to mutual fund industry happened during this period. Most funds were growth-oriented closed-ended funds. By the end of this period, assets under UTI's Management grew to Rs. 38,247 crore and public sector funds managed Rs. 8750 crore.

(iii) **(1993-1996):** In 1993, the MF Industry was open to private sector players, both Indian and Foreign. SEBI's first set of regulations for the industry were formulated in 1993, and substantially revised in 1996. Significant innovations in servicing, product design and information disclosure happened in this phase, mostly initiated by Pvt. Sector players.

(iv) **(1996-1999):** The implementation of the new SEBI regulations and the restructuring of the MF Industry led to rapid asset growth. Bank mutual funds were re-cost according to the SEBI recommended structure, and UTI came under voluntary SEBI supervision.

(v) **(1999-2002):** This phase was marked by very rapid growth in the industry and significant increase in market shares of pvt. Sector players. Assets crossed Rs. 100,000 Crore. The tax break offered to mutual funds in 1999 created arbitrage opportunities for a number of institutional players. Bond funds and liquid funds registered the highest growth in the period, accounting for nearly 60 per cent of the assets. UTIs share of the Industry dropped to nearly 50 per cent .

Yet the above stated theory states the history of Mutual fund industry in five phases. Its history can basically be divided into two phases: -

(i) The period before Liberalization (Pre-Liberalization)

(ii) The period after Liberalization (Post Liberalization)

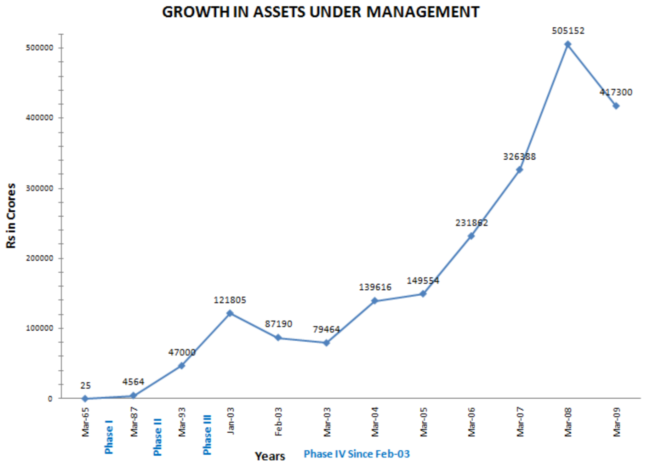
The period before Liberalization when only public sector players existed with one dominant player Unit Trust of India and the post Liberalization era where the industry was opened up to private players.

Unit Trust of India (UTI) was established in 1963 and launched its legendary first scheme 'US-64' in 1964. UTI witnessed a slow and steady growth over seventies and eighties and by the end of 1988 it had an AUM of Rs. 67,000 million. From 1987, non-UTI, public sector mutual funds were allowed and a series of mutual fund companies were set up by public sector banks and financial institutions. At the end of 1993, the overall AUM of mutual fund Industry was Rs. 470,004 million.

The mutual fund industry was opened up for private participation in 1993 and a new era was ushered in, paving the way for an unprecedented choice of products and services to Indian investors. Detailed guidelines were established and the mutual fund industry (except UTI) came under the regulation of Securities Exchange Board of India (SEBI). As at the end of January 2003, there were 33 mutual funds with total assets of Rs. 1,218,050 million.

In Feb 2003, the Unit Trust of India Act 1963 was repeated and UTI was broken into separate entities. One is the specified undertaking of the unit trust of India, still under the control of Government of India with AUM of Rs. 298,350 million as at the end of January 2003. The second is the UTI Mutual Fund Ltd., sponsored by SBI, PNB, BOB and LIC. It is registered with SEBI and functions under the mutual fund regulations. As at the end of October 31, 2003, there were totally 31 funds in India, with assets under management of about Rs. 1,267,260 million10.

Overall FY 2003 can be summed up as the year of the maturing of the mutual fund industry. One of the most effective Industry bodies today is probably the Association of Mutual Funds in India (AMFI). It has been a forum where mutual funds have been able to present their views, debate and participate in creating their own regulatory framework. The association was created originally as a body that would lobby with the regulator to ensure that the fund viewpoint was heard. Today, it is usually the body that is consulted on matters long before regulations are framed, and it often initiates many regulatory changes that prevent mal practices, that emerge from time to time. The graph indicates the growth in assets over years.



REVIEW OF LITERATURE

Shanmugham (2010) conducted a survey of 201 individual investors to study the information sourcing by investors, their perceptions of various investment strategy dimensions and the factors motivating share investment decisions. The study concludes that among the various factors physiological and sociological factors dominated the economic factors in sharing investment decisions.

T.R. Rajeswari and V.E. Rama Moorthy (2011) conducted a study specifically targeted investors including small and retail both stating that in financial markets "expectations" of the investors play a vital role. They influence the price of the securities, the volume traded and determine quite a lot of things in actual practice. Cognitive Dissonance and Endowment effect is basically taken into consideration. It is widely believed that Mutual fund is a retail product designed to target small investors, salaried people and other who are intimidated by the stock market but nevertheless, like to reap the benefits of stock market investing. The study was limited to 350 educated investors in urban and Semi-Urban cities only. The survey reveals that the investors are basically influenced by the intrinsic qualities of the product followed by efficient fund management and general image of the fund/scheme in their selection of fund schemes. The study concluded that running a successful Mutual fund requires complete understanding of the peculiarities of the India Stock Market and also the psyche of the small investors.

Suma S. (2011) in this article the whole concept in related with the ethical flavors whether it's in life or it's come to investing in Mutual Funds. So the Indian investors, who are mainly influenced by the Environmental, social and animal cruelty are mainly attracted towards such Ethical funds. Facts resulted that for an Investor just looking for performance, there's no reason to buy a socially responsible fund. There is no guarantee of high returns since the performance, as in case of other funds will depend only on the ability of the fund manager and the stocks he/she picks. But, for an investor, who is very religious and has ethical convictions, Ethical Funds are the right funds to invest in.

NATURE OF MUTUAL FUND

Due to rapid advances in technology within the last 30 years, the financial services sector has moved from "face-to-face" selling to direct marketing of products and services in the form of phone, mail or computer transactions. There has been awareness within the industry that certain consumers are receptive to this newer way of marketing financial services, while other prefers personal interactions.

Although, now a days marketing has become a means of communication that engages the audience with the brand. It's an original and unique advertising approach that immerses the customer with the brand and its even lets the customer reshape and market it in his own unique way. (Yapp, Mike).

"Mutual Fund Investments are subject to market-risk. Please read the offer document carefully before investing".

The above quoted statement state a part of marketing through the fund company, which specifically states on the mind of investors who in real want to get averse of risk.

Each and every Investor before investing in mutual fund just takes into consideration; risk, return, profit margin, market timings, and market ups and downs. Can every aspect of investing be known by the investor itself? It's not possible. So for the benefit of the investors various measures or practices are opt by the fund company so that its doubts regarding its investment can be cleared out, and this all can be sorted out through various modes such as in advertisement through Television, newspapers, Banners, pamphlets, Booklets, Seminars or programs held.

So when investor buys a mutual fund unit he/she buys a part of the equity or debt portfolio owned by the mutual fund. Investors are an owner of the particular security to the extent of their contribution to the total corpus, which is represented in terms of units credited to their account.

In other words investors are buying a part ownership of various companies and when they buy a debt mutual fund it means they are buying a part right to title to debt securities. So each company for showing his market share, goodwill in a better condition, have to do marketing for the fund (products), so the need for its marketing practices arises to have its existence in the market. If profit and sales are given preferences and if Marketing practices are ignored it means one or the somewhere the company lacks to have its growth in the market.

Some of the techniques used to market mutual funds are not so different from those used in distributing consumer goods. Like other products, funds offer their buyers the promise of future benefits. Unlike other products, the nature of the benefits is less predictable. As a result, fund marketers must adapt their skills to fit the demands of a dynamic investment environment. Basically the need of marketing practices arises as with the time, because the marketers are just crowded with new ideas, marketing executives are forgetting the basics of how to separate their brand from the competition. “What marketing folks need to look for is that simple, obvious strategy and not get bogged down in the complexities” says Trout

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