Indian Mutual Fund Industry: A Synoptic View

Dr. B. D. Awasthi¹, Arti Sharma²
¹Professor and Head, Department of Commerce, S.S.J Campus, Kumaun University, Almora, INDIA
²Research Scholar, Department of Commerce, S.S.J Campus, Kumaun University, Almora, INDIA

ABSTRACT

Mutual funds have become an indispensable contributor in the growth of financial market in India. The Indian mutual fund industry is growing year by year in terms of its asset size, asset management companies, number of schemes, investors accounts etc. Because of ease of investment, risk diversification, affordability and other advantageous characteristics mutual funds have emerged as important ingredient in Indian Financial Market. They play a very significant role not only in resource mobilization but also in the stability in the Indian Financial Market and Indian Economy. This study aims at providing the Indian Mutual Fund Industry in terms of its evolution, recent trends, reforms, opportunities and challenges.

Keywords---- Mutual funds, Risk Diversification, Asset Management Companies, Financial markets

I. INTRODUCTION AND ABOUT THE PRODUCT

A Mutual Fund is an intermediary mechanism that professionally manages money of ordinary investors on their behalf. The money so pooled is invested in capital market securities such as shares, bonds, debentures, government securities, money market instruments etc. The income earned through these investments and the capital appreciation realized are shared by its unit holders in proportion to the number of units owned by them. Thus a Mutual Fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost.

II. EVOLUTION OF MUTUAL FUND INDUSTRY IN INDIA

The evolution of mutual fund industry has shown below in the form of a diagram
At present, a total of 41 mutual funds are operating in the market. Of these, 10 are in the public sector (including UTI) and 31 in the private sector. Within the public sector apart from the hybrid UTI, 6 funds are bank sponsored and 3 are financial institution sponsored. In the private sector, 17 are predominantly Indian funds and 13 are joint ventures with foreign funds. All the 41 mutual fund companies operating at present together have launched a total of 10126 schemes having 4.77 crores of unit holder’s account with a market capitalisation of Rs. 1,227,327 crores as on June 2015.
MARKET SHARE OF ASSET MANAGEMENT COMPANIES IN INDIAN MUTUAL FUND INDUSTRY

Source: AMFI-Report

INCREASE IN INVESTORS’ ACCOUNT

Source: AMFI-Report
BREAK-UP OF MUTUAL FUND INDUSTRY IN TERMS OF VARIOUS FACTORS

Source: pwc-cci-indianmutualfundindustry

Source: pwc-cci-indianmutualfundindustry

Source: pwc-cci-indianmutualfundindustry
III. CHALLENGES FOR INDIAN MUTUAL FUND INDUSTRY

Mentality of Investors:
Most of the investors specially medium net worth individuals (MNIs), who are also the mass affluents, are not happy to pay a fee when it comes to receive a financial advice that too in the volatile financial market scenario.

Lack of awareness among investors:
Unlike the investors in developed economy, financial awareness & literacy of the common man in India is still relatively low. The ordinary investors mainly focus on investing in physical and real assets such as real estate, housing, gold etc.

Distribution:
- Asset managers haven’t demonstrated the inclination towards investing in their own distribution channel & are very much independent on the third party distributors.
- The system of distributing the mutual fund product through party channels is such that this growth comes at a cost leads to deplete the profit margins of the AMCs. Therefore, The AMCs are trying to make equilibrium between aggressive growth and profit.

Ambiguity between distributors and advisors in practice:
- Despite SEBI Investment Advisor Act 2013 distinguishes between investment advisors and distributors, there may still be some potentially dark areas where few mediators can make profit from investors and AMCs both.
- Distributors provide informal advise to investors while still receiving commission for product manufacturers which are not in line according to the regulations of SEBI.

**Changing regulatory and market Scenario:**

- The changing Regulations have made mutual fund distribution less attractive and have dumped industry growth. Specially it became difficult for small & medium size to increase their reach since regulatory structural change in 2009.

**Regulatory Reforms and Proposals:**

Securities and Exchange Board of India (SEBI) in line with Association of Mutual funds of India (AMFI) provides various reforms and guidelines to the mutual fund industry time to time in order to make the working of asset management companies more effective but also to ensure reliability for mutual fund products in the mind of investors. Few recent regulatory updates are as follows:

**Introduction of the concept of seed capital:**

The AMC or sponsor will have to invest at least 1% or 5 million INR, Whichever is less (in new open ended offerings) of the amount raised in the growth options.

**Disclosure of Asset under Management:**

Mutual Funds are required to disclose their AUMs of different schemes to Association of Mutual funds of India as well as on their websites on monthly basis in order to enhance transparency & increase the quality of the quality of the disclosure.

**Financial Inclusion:**

In the view of financial inclusion, SEBI has mandated mutual fund ‘houses to print their literature in regional languages and make it available to ensure investment awareness and education.

**Enhancement in the reach of private sector mutual funds:**

SEBI has given permission to private sector mutual funds to invest in navratna and miniratna companies.

**Accessibility for small investors:**

In order to enhance the accessibility of small investors who may not have Permanent Account Number or bank account cash investment in mutual funds.

**Compliance of New Net worth Requirement:**

According to a recent notification of SEBI, AMCs shall be permitted to launch new schemes only after they comply with the new net worth requirement of 500 million INR.

**IV. CONCLUSION**

Indian mutual fund industry is a huge industry with a large turnover. The benefits of mutual funds are immense not only for ordinary individual investors but also for retail investors and financial institutions. Mutual funds not only stabilize the returns of the investors but also alleviate the performance of overall financial market. The Indian mutual Fund Industry has travelled a remarkable journey from Unit trust of India to an industry of more than 44 AMCs, including UTI, public sector fund houses, private AMCs, Joint Ventures with a variety of financial products. As the mutual fund companies are emerging with new fund schemes every year, the watchdogs of Indian mutual fund industry namely SEBI & AMFI have also been providing there regulatory amendments in line with the government policies and current business environment to assist asset management companies as well as to protect investors’ interest. Although, the Indian mutual fund industry is expanding over the time, there exist a lot of potential in the untouched market areas. The need is to make financially illiterate people aware about the mutual funds and there benefits in order to penetrate into such remote rural and semi-urban areas. Another challenging issue before the Indian mutual fund industry is the problem related to distribution and distribution channels. Although, Due to SEBI and AMFI, endeavors have been made to make people financially aware and change their mentality and SEBI has made several acts like SEBI Investment Advisor Act 2013, but still these are big challenges in front of Indian mutual fund industry.

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