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Issues, Opportunities And Challenges of Stock Exchange Mutual Fund in India

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ABSTRACT

Mutual Fund segment is the part and parcel of any capital market, which plays an important role in mobilizing resources for corporate sector. Mutual fund investors are not exactly a pampered lot today. The distributors either offer an excuse or a Unit Linked Insurance Plan or both as the sad truth for the mutual fund industry after scrapping of entry loads—the bread and butter for various Investment advisors. It has left thousands of investors in lurch. The investors were left with no idea on choosing MF schemes as the advisors are not dependable. The recommendations of SEBI committee under the chairmanship of Mr. K N Vaidyanathan, ED - FII & MF made SEBI to issue Circular on November 13th, 2009 enabling Online route and giving necessary guidelines to all stake holders on the facility of collecting applications for Mutual Fund transactions through recognized Stock Exchanges as it paves way in movement of funds, bargaining power with respect to charges paid to intermediaries, time consumption, paper work, transparency, disclosure of reliable information and grievance resolution mechanism, in addition to the prevailing advisor route, AMC websites and Individual online portals which made Mutual Fund investments as easy and convenient like other asset classes to deal with.

KEYWORDS : Mutual Fund, SEBI, Stock Exchange, Depository, Demat Account, Asset Management Company (AMC), Asset Under Management (AUM), Systematic Investment Plan (SIP), Individual Financial Advisor (IFA)

INTRODUCTION TO MUTUAL FUND IN INDIA

A mutual fund is a trust that pools the savings of investors who share a similar monetary goal. The money consequently composed is invested by a fund manager in various types of securities keeping in mind the objective of the scheme. These investment options could range from equity to debt and to money market instruments. The profit earned through these investments and the capital appreciation realized by the mutual fund scheme is shared by its unit holders in fraction to the number of units owned by them. The value of every unit of Mutual Fund, known as the net asset value (NAV), which is calculated on daily basis on the total value of the fund divided by the number of units purchased by investors. In India, there are 50 AMC's (Asset Management Companies) / Fund Houses together had an average AUM (Asset Under Management) of Rs.10,06,452crores for the FY 2014 – 15 got registered with SEBI. The growth in Mutual

Fund investments year by year, lack ofinfrastructureand non-availability of reliable sources of information to investors made SEBI to strengthen the segment by way of allowing Mutual Funds segment into Stock Exchanges.

LITERATURE REVIEW

Prava (2000) wrote a book broadly on financial instruments and services with a separate chapter on mutual funds. In this section types of mutual funds their advantages, how to choose a mutual fund for investment , calculation of NAV, mutual funds guidelines, SEBI regulations and growth trends from 1978 to 2000 was discussed.

Sharma, Jain and Kartik (2005) in their paper attempted to study the growth and performance of mutual fund industry in India from 1963 to 2003. The study found that growth rate of number schemes was more than 20% during the period 1996-2003. The study also showed that joint ventures in private sector dominated this industry as their AUM is 59.46% of combined AUM of all companies. It was concluded that though there was tremendous growth due to privatization, only 3% of India's savings were directed towards mutual funds.

Gupta (2011) in a study on Indian mutual funds industry' s current state an future outlookemphasized reasons behind the growing importance of mutual funds in India. Major reasons quoted were like increase in domestic savings to give a glimpse on the current status factors like growth in AUM, profitability, AUM to GDP ratio, increase in the variety of products, improvements in distribution channels and structure of the industry were shown. The three major drivers which can drive this industry towards higher levels of success are retail participation, innovation in distribution and institutional participation. This paper concluded that mutual funds organization is needed to upgrade their skills and technology to overcome the bottlenecks in the growth of this industry. There is a need of strong regulatory framework, transparency and disclosure policies, customer involvement and wider approach to cover tier 2 and tier 3 cities.

MUTUAL FUND FORMATION IN INDIA

Phases	Period	Important change	Turnover in Rupees(Crores)
One	1964 – 1987	UTI was established by an Act of Parliament. Operationally, UTI was set up by the RBI, but was later delinked from it. The first, scheme launched by the UTI was the UNIT Scheme in 1964.	6700
Two	1987 – 1993	Entry of non UTI public sector commercial funds. State Bank of India established the first Mutual fund in November 1987 and many other banks followed.	47004
Three	1993 – 2003	Entry of the private sector funds and foreign fund management companies	121805
Four	2003 – 2009	Mutual Fund industry scaled new heights in terms of mobilization of funds and number of players. SEBI took Investor friendly regulatory measures to protect the investor. The government enhanced investor's return through tax-benefits.	153108
Recent	Since 2009	Mutual Fundwere allowed to trade through Stock Exchange Online platform	13326

www.manimoney.com and www.amfiindia.com

MUTUAL FUND TRANSACTION THROUGH STOCK EXCHANGE TRADING TERMINALS

Investor having an online trading account for stocks can buy mutual funds through Trading Terminals provided by the stock broker. BSE launched its StAR MF (web-based Online Mutual Fund platform of BSE) on December 4, 2009 and NSE launched its MFSS (Trading Terminal based - Mutual Fund Service System) on November 30, 2009. The Stock Brokers are today linked with NSE and/or BSE mutual fund exchange platforms. Investor can log on to the broker's online trading terminal and select the scheme of their choice from the list of schemes available on the portals. MF units will be credited directly to investors' Demat account. In addition, Stock brokers provide in-house research to help investors identify the best schemes and also allow a consolidated view of all their holdings of Shares, Exchange Traded Funds and MF units. This platform helps investors by way of zero transaction cost, same day delivery, easy liquidation and free advisory services. The stock exchange platforms on an average logs about 193 buy or sell orders worth about 1.79 crore every month while the NSE executes about half the number of trade orders worth about 70 lakh.

SOURCE: BSE & NSE WEBSITES

Features of Online Mutual Funds

Benefits	Conventional Method	Stock Exchange Mutual Fund
Commission	Paid by client to MF distributors directly	Brokerage paid to Online MF provider
Execution	Will take 3 to 5 working days for execution	Execution on the same day
Information	Details will be available in broachers and MF websites	Trading Terminals
KYC	Have to do every time during purchase and redemption	One time KYC registration
Payments	Bankers Cheque, Demand Draft and Cash transaction up to Rs.50000	Online fund transfer
Purchase / Redemption	Application forms	Through MF website, Independent portals and Stock Exchange Trading Terminals
SIP	Transaction charges to be paid upfront	Transaction charges can be paid in installments
Trade confirmation	Confirmation by Distributors and AMC's	Stock Exchange confirmation via sms
Units delivery	In Physical form	Credited into the demat account

COMPLAINT REDRESSAL MECHANISM

Investors can approach the concerned Mutual Fund and Stock exchanges through Investor Service Centre or its website with their complaint for resolution. If the complaints remain unresolved, the investors may approach SEBI for facilitating redressal of their complaints. On receipt of complaints, SEBI will take the matter with the concerned mutual fund and follow up with it regularly.

CHALLENGES AND OPPORTUNITIES

The Mutual Fund distributors can apply for MF distributorship with stock exchanges or its affiliates and not with all mutual fund houses. In addition to Stock Exchange Trading Terminal, Individual portals and MF websites, the development of mobile technology and the emergence of social media offer individual investors various ways to access Mutual Funds.

The issue of Trial Commission needs to be addressed by regulators. The distributors receives 0.5% to 1% trial commission for the investments brought and maintained under his distributorship whereas in the online platform, brokers will receive only transaction charges as the account is maintained by the depositories. This makes the distributors not to empanel with online platform.

The conveniences of maintaining Mutual Fund investments in demat form on par with other asset classes like stocks and insurance. A large number of retail investors do not have 'demat' accounts. Opening a demat account with depository for the purpose of Mutual Fund investments involve account opening charges, annual maintenance charges and dematerialisation charges apart from transaction charges for purchase and redemption of Mutual Fund units online.

A Know Your Client process requires verification of documents while opening online account. The Mutual Fund House needs to arrange for physical verification through their network of independent financial advisors (IFAs), cause manual intervention and additional cost.

Financial awareness and literacy of the Indian investor is relatively low given the propensity of the Indian investor to prefer savings in physical form like real estate, housing and gold, investments in MF instruments are relatively low compared to these other instruments. Mutual Fund instruments constituted 3% of Indian financial assets as opposed to gold and real estate which contributed 46% of financial assets. Increasing awareness to promote Mutual Fund investment will remain a key challenge.

CONCLUSION

The current Mutual Fund sector environment is characterized by innovative business models, technological advancement, market impact, competitive pressures and also through a continuous series of notification and circulars issued by SEBI to empower investors. The structure and pattern of Mutual Fund sector in India is undergoing technical advancements which can act as a key enabler and help the mutual fund houses reach investors at low cost and more efficient manner. Increasing financial literacy will be the key to unlock the doors for more participation especially the younger population as more and more people accessing the web through mobile phones; the internet user base in the country is projected to touch 213 million by June 2015. Fund houses may need to create distributors with sound knowledge in digital marketing and product knowledge. Also, distributors should be incentivized enough to ensure that they project mutual funds as a long-term investment for fulfilling financial goals of individuals. Presence of an unbiased advisor could build investor trust on the one hand and reward performing products on the other. These measures should help the industry on the path for a better growth. However, we need all stakeholders' viz. asset management companies, distributors, regulators join together to help ensure the common goal of growth along with profitability is achieved.

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