Research Paper Management

Participation of Rural Households in Mutual Funds for Sustainable and Inclusive Growth: Issues and Challenges

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ABSTRACT

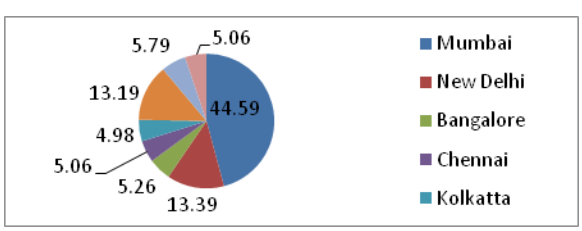
The sustainable growth requires participation of all segments of society. The disparity in a shining India and a deprived Bharat is a big challenge for policy makers. The rural India should participate in the growth story, just like urban India; otherwise the sustainability of growth will be questionable. The people from rural areas should also have opportunities for investment just like urban India, to reap the benefits of economic success of country. This paper reviews the issue and challenges of participation of rural people in mutual funds. The mutual funds have been confined to urban centers. The industry has ignored a vast untapped rural market. The rural market offers a pool of potential investors. The industry players must come together along with regulatory agencies to overcome the challenges of distribution network, awareness, cultural barriers so that financial markets can enhance retail participation and overall economy will achieve a sustainable and inclusive growth.

KEYWORDS | Disparity, Investment, Mutual Funds, Awareness, Sustainable Growth

INTRODUCTION:

The participation of rural households in economic success is must for sustainable development. The availability of safe investment options not only channelizes the saving of people for productive purpose but also makes provides them with healthy returns. Failure of mutual funds to spread into small cities and rural areas is a cause of concern. The participation of retail investors is must for expansion of financial markets. Figure 1 highlights the participation of different cities in mutual funds. It is found that 73.28% on asset under management (AUM) in mutual fund is contributed by the top five cities of the country including Mumbai, New Delhi, Bangalore, Chennai, and Kolkata (Kant 2012).

Figure 1: Participation of Cities in Mutual Funds Asset under Management (AUM)



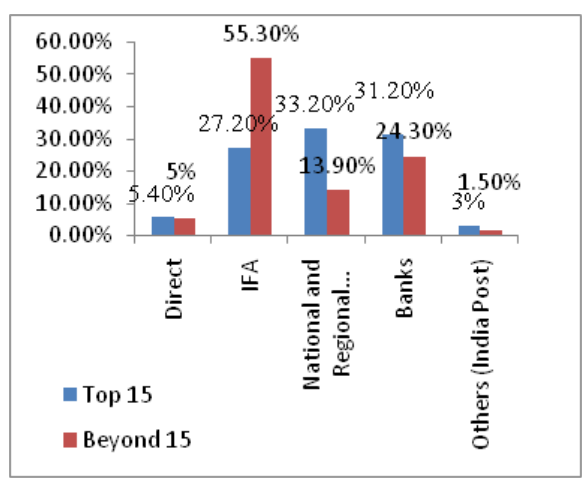
Source: Kant C., 2012 (Business Standard)

The Jan Dhan Yojana launched by the Prime Minister Mr. Narendra Modi is a step towards financial inclusion. A record number of accounts have been opened in a short duration of time.

After a long journey from UTI, entry of private, foreign players the assets in mutual funds form less than 10% of our GDP (Gokarn, 2011). One of the reasons is poor participation of rural investors.

The mutual fund industry has started efforts to increase participation of retail investors from tier II and tier III cities. The assets under management has crossed Rs. 1 lakh crore from 400 centers in tier II and III cities in October 2014 (The Economic Times, 2014). The mutual fund industry should take these efforts further and attract rural investors to enhance assets under management, improve penetration and make mutual fund an engine of inclusive and sustainable growth. The figure 2 shows that independent financial advisors (IFA) are largest contributors in the distribution network in beyond 15 cities (MoneyLife, 2012). Such advisors may play an important role in rural markets.

Figure 2: Contribution of Different Channels



Source: MoneyLife, 2012

LITERATURE REVIEW:

Gokarn (2011) suggested that mutual fund industry should develop schemes to attract low income groups especially in rural areas. It is must to ensure participation of all sections of society in mutual funds. The inclusion of rural population in mutual funds will lead to sustained development of financial markets and economy as a whole.

Amarnath, Reddy, and Thulasi (2012) studied role of financial inclusion for mutual fund industry. It was recommended that regulators, fund managers and investors should collaborate to develop market for mutual fund industry.

Dunna (2012) studied growth, opportunities and challenges of mutual fund industry. It was argued that no mutual fund can

alone manage the challenges of distribution of products in rural areas. The industry needs support from banks, distribution services, technology to develop cost effective sustainable cost-benefit model of growth.

Jani and Jain (2013) Studied investing pattern of urban and rural investors in mutual fund. It was found that both urban and rural investor prefer advice of financial advisor, followed by risk return profile, past performance, tax aspects, brand of the mutual fund. It was also found that demographic factors significantly affect investor behavior of urban and rural investors.

Kandpal and Kavidayal (2013) studied marketing strategies of private and public mutual funds. It was found that marketing strategy has failed to address the psychology and expectations of investors. Marketing strategy of funds is lackluster, marketing strategy has urban bias. It was also highlighted that inferior distribution services, limited banking is a challenge for the mutual fund industry.

OPPORTUNITIES:

1. 70% of Indians live in rural areas. The rural population is untapped by the mutual fund industry.
2. Lack of alternative investment opportunities in rural areas. Mutual funds can create awareness and provide an alternative investment opportunity to the rural people.
1. Schemes of government to enhance financial inclusion will provide banking facilities to a large number of rural populations. As shown in table 1, 763.35 lakh accounts have been opened (as on 5th February 2015) in few months under Prime Minister Jan Dhan Yojana.

Table 1: Number of Accounts Opened in Jan Dhan Yojana (as on 5th Feb 2015)

	Rural	Urban	Total
Public Sector Banks	542.42	459.28	1001.7
Private Sector Banks	32.62	20.41	221.78
Regional Rural Banks	188.31	33.47	53.02
Total	763.35	513.16	1276.5

Source: pmjdy.gov.in

2. Adarsh gram schemes of the government have provided an opportunity for rural people to meet members of parliament (MP), in case of adopted villages. The MP's can create awareness about investment opportunities in mutual funds.

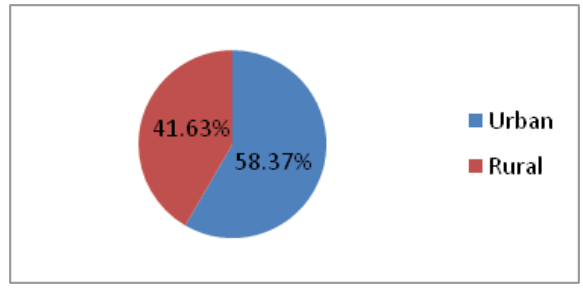
3. Mobile penetration in rural areas can be used to provide a platform for rural people to track the NAV's of their schemes though internet using their mobiles. As shown in table 2, there are 390.06 million wireless subscribers in rural areas. The figure 2 shows that

Table 2: Telephone Subscribers in India (as on 30th Nov 2014)

Particulars	Urban	Rural	Total
Wireless	546.99	390.06	937.05
Wire line	21.72	5.42	27.14
Total	568.71	395.48	964.19

Source: TRAI

Figure 2: Share of Urban and Rural Subscribers in wireless



Source: TRAI

4. Increase in rural household income.

5. Fraud committed by chit fund companies can be used as an opportunity to attract rural people to join mutual funds, which provide better regulation to safeguard interest of investors.

6. Availability of Aadhar cards among rural people will assist Know Your Customer (KYC) requirements of the industry.

7. Favorable political support for developing rural areas.

8. Favorable economic environment for development of industry and financial sectors.

9. Growth oriented policies of Prime Minister Mr. Narendra Modi.

10. Regulatory support from SEBI. SEBI has allowed mutual fund houses to use two basis point of AUM for creating awareness among investors. To increase penetration in tier II and III cities, SEBI has allowed fund houses to charge 50 basis point additional management fee in each slab to give incentives to agents to increase participation of investors from tier II and III cities.

11. Use of mobile for mutual fund transactions can increase penetration of mutual funds in rural areas. The immediate payment service (IMPS) can be used to make payments for mutual funds.

12. Extensive network of post offices in rural areas can be used to distribute mutual fund products of public sector banks like SBI to provide rural households with a trusted name to invest in mutual fund. Gradually schemes of other mutual fund houses may be introduced through post offices, once the investors gain confidence on mutual funds.

CHALLENGES:

1. Poor penetration of mutual funds in rural areas.

2. Poor financial awareness.

3. The schemes are meant for middle income and high income people.

4. Investment is required for developing distribution channel.

5. Attitude of the employees to tap rural market will be a challenge for contacting rural investors.

6. It is difficult to gain the confidence of rural masses for a new type of investment.

7. Lack of reliable financial intermediaries.

8. High distribution cost in rural areas.

9. Cultural barriers. The rural investors are more conservative and so would resist investing in a financial asset. The tradi-

tional physical asset investments are considered more reliable. The mutual fund industry has to plan long term strategy to overcome these cultural barriers in rural areas.

CONCLUSION:

The mutual fund industry can be used as an instrument for accelerating the pace of rural economy. The funds can flow from small rural investors into productive sectors by pooling of small savings in the form of mutual fund. On the other hand the small rural investors can get benefit of professional management and diversification and participate and get benefitted by the success of corporate world.

The mutual funds have not able to make an impact in rural area and among low income households. The vast rural market is untapped. The mutual fund industry should come out with innovative schemes especially for rural households with small investments in a flexible investment plans. The public institutions like panchayat, schools and colleges, banks, electronic and print media should be used to create awareness about mutual funds among rural households. The mutual fund industry needs to collaborate with such agencies and enhance the awareness level of rural people and channelize their savings. Mutual funds should also collaborate with regional rural banks, cooperative banks to increase participation of rural people.

To gain the confidence of rural investors the public sector banks can play an important role by highlighting the benefits of mutual funds to the account holders.

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