Research Paper Commerce

Mutual Funds in India: Key Issues And Challenges

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ABSTRACT

In this modern era, mutual fund industry is growing very fast by satisfying the investors. Investment in mutual fund is affected by the position of the investors. Mutual funds are a type of investment, which takes money from investors and makes investments based on a mentioned investment objective. In mutual funds investors can invest their savings directly or also through a professional financial advisor. All the investor's should come together to face the mutual funds key issues and challenges which may arise in the future. Keeping in mind the issues and challenges, the asset management firms need to focus on these challenges so as to enable mutual fund occupying a place in the investment era. This article presents an overview of the mutual fund industry in India and its key issues and challenges. Moreover, this paper makes an attempt to educate the society about the key issues and challenges of mutual fund industry.

KEYWORDS Mutual Fund, Investors, Issues , Challenges

1.0 Introduction

Investment in general terms refers to employment of funds in an effective manner to create additional income. In the macro sense of the economy, savings are used for investment to get a better output in the future. Investment in physical sense refers to buying assets like house, luxury goods, gold etc. In Graham's words "Investment is putting money into something upon thorough analysis, with the expectation of gain that has a high degree of security for the principal amount, as well as security of return, within an expected period of time". Earlier people used to invest their savings only in livestock like cows and sheeps and agricultural products like grains, vegetables and valuable metals like silver and gold since they had only few traditional investment options. During 19th century, banking system provided various investment options like Fixed deposits (FDs), government bonds, Public Provident Fund (PPF) to its investors. Along with the development of capital market, investment in stocks is also a very good option for getting higher returns. However, higher risk and lack of knowledge relating to the movement of stock price were related with them. Therefore mutual funds become a visible method of investment to get more returns at low cost with the expert's knowledge.

According to SEBI (Mutual Funds) Regulations, 1996, a mutual fund is "a fund established 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." A mutual fund is a trust that pools together the savings of the investors who share a common financial goal and invest in capital market instruments like shares, debentures, and other securities. Mutual funds are a type of investment, it takes money from investors and it makes investments based on a mentioned investment objective. In mutual funds investors can invest their savings directly or also through a professional financial advisor.

2.0 Mutual Funds in India: Historical Perspective

In 1963 an initiative has been taken by Government of India and Reserve Bank of India to start Mutual Fund industry along with the formation of Unit Trust of India (UTI). The history of mutual funds in India can be broadly classified into four different phases. The first phase was from 1964 until 1987. The second phase was from 1987 until 1993. The third phase was from 1993 until 2003 and the last phase began in 2003.

2.1 First Phase - 1964-1987

It was the first phase (1964–1987) of Indian mutual fund industry during which UTI enjoyed a complete freedom. Unit Trust of India (UTI) was well-established in 1963 and it was introduced with the help of Reserve Bank of India. UTI was working under the regulation and administration control of the Reserve Bank of India. UTI was separated from the RBI in 1978 and the regulation and administration control was taken over by the Industrial Development Bank of India (IDBI) as a substitution for RBI. Unit Scheme 1964 was the first and foremost scheme launched by UTI . UTI had Rs. 6,700 crores of assets under management at the end of 1988.

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

The possessorship of UTI came to an end in 1987. When the Government of India allowed commercial banks in public sector to erect subsidiaries to operate the functions of mutual funds. State Bank of India Mutual Fund was the first and foremost non-UTI mutual fund which was established in June, 1987 followed by Canbank Mutual Fund (Dec., 1987), Punjab National Bank Mutual Fund (Aug., 1989), Indian Bank Mutual Fund (Nov., 1989), Bank of India Mutual Fund (June, 1990), Bank of Baroda Mutual Fund (Oct., 1992). Life Insurance Corporation of India (LIC), established its mutual fund in June 1989 while General Insurance Corporation of India (GIC), had set up its mutual fund in December 1990. These mutual funds expanded the investor community and investible funds.

The mutual fund industry had assets under management of Rs. 47,004 crores at the end of 1993. Ultimately, in the second phase (The investment Trust 1987-1993) Government of India allowed public sector banks and financial institutions to set up mutual funds.

2.3 Third phase (1993–2003) (Entry of Private Sector Funds) :

Third phase (1993–2003) started with the new entry of private sector and foreign funds. A new stage started in the Indian mutual fund industry, with the access of private sector funds in 1993. This stage started giving a wide variety of investment opportunities to the Indian investors. The erstwhile

Kothari Pioneer was the first private sector mutual fund which was registered in July 1993. The 1993 SEBI Regulations were replaced by a more absolute and rectified Mutual Fund Regulations in 1996. The industry now functions under the SEBI (Mutual Fund) Regulations 1996. The number of mutual funds went on increasing, with many foreign mutual funds setting up funds in India and also the industry has witnessed several mergers and acquisitions. At the end of January 2003, there were 33 mutual funds with total assets of Rs. 1,21,805 crores.

2.4 Fourth Phase - Since February 2003

The fourth phase (since 2003 till date) is the age of consolidation and growth. In February 2003, the Unit Trust of India Act 1963 was revoked and therefore UTI was devided into two various substances. They are as follows:

1. Specified Undertaking of the Unit Trust of India. As at the end of January 2003 Specified Undertaking of the Unit Trust of India had assets of Rs. 29,835 crores. Also it exhibiting the assets of US 64 scheme, assured return and other schemes. The Specified Undertaking of Unit Trust of India, operating under an administrator and the rules which are framed by Government of India.

2. UTI Mutual Fund sponsored by SBI, PNB, BOB and LIC. It is enrolled with SEBI and working under the Mutual Fund Regulations. With the separation of the erstwhile UTI along with the setting up of a UTI Mutual Fund, comply 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.

As on 31st march 2013 mutual funds schemes are classified into wide varieties of schemes such as Open-Ended, Close-Ended, Interval, Growth, Income, Balanced, Equity Linked Savings Scheme (ELSS).

3.0 Present Key Issues and Challenges

The following are the challenges of mutual fund industry in the forthcoming times:

Innovative Products- The industry needs to launch new products with market hedging potentialities which can shield returns for investors as well as Asset Management Companies. There has to be an improved level of experience in the products offered in the market. In order to get an assured returns for the investments, fund managers have to concentrate more on organised products so that investors will get an assured returns for their investment. This helps to increase overall fund performance.

Maintaining the balance between Business and Concurrence- There is an increased cost of concurrence and risk management with regulations being touchstone to international standards. The disciplinary regulative standards acts as a open challenge to asset management companies, particularly small scale firms which is lacking in economy. The increasing analysis of sales of funds is modifying the financial relationship between the asset management companies and third party. In additional to the development of regulation, operational and compliance risk has become a top priority for traditional and asset management companies.

Talent detention and Management- The major changes in the mutual fund industry is slowly making its presence known to the Indian outfits with many fund managers. Some have gone to asset management companies and others have started their own private equity fund. Managing, retaining and selecting the right talent is a key challenge for the mutual fund Industry. Education of mutual fund industry is also very important to select and retain the right talent which leads us to success.

A Lack of awareness & financial education- Education plays a very effevtive role in each and every field. In small town, cities and and rural areas its very important to educate the investors because educated mutual fund investors are very few in the market.While AMFI has been making some efforts in this direction, it is relatively inadequate compared to the investing population. More grass-root campaigns especially in rural areas needs to be undertaken to familiarize Mutual funds and their benefits. With the introduction of assets like gold, real estate and commodities through the MF route, investor education will attain supreme importance in the near future.

Managing newly emerging competitiors- Low barriers to entry and increased competition from other asset Management Companies will squeeze returns and share in the fund market in India. Though there is lot of untapped opportunity in India it will take its own time to unleash the potential.

More use of technology- Unlike Equity Market, Mutual fund market is somewhat primitive in terms of technical infrastructure and settlement process. Fund houses have introduced interesting technological innovations like transacting through the internet, net asset value updates on cell phones, unit balance alerts via SMS messages, transacting through ATM cards etc.The internet revolution in our country is yet to penetrate to the grass root levels. The per capita usage of internet in our country is still very low when compared to the developed and developing countries. It is very important to strike the right balance while choosing to invest in technological advancements.

Conclusion:

From the above discussion, it can be concluded that Indian mutual fund industry is in its Growth stage and possesses a wonderful scope for development. All the investor's should come together to face the mutual funds key issues and challenges which may arise in the future. Keeping in mind the issues and challenges, the asset management firms need to focus on these challenges so to enable mutual fund occupying a place in the investment era.

Moreover, for improving the growth of Indian mutual fund industry, it is very important to understand the investor's intentions and expectations towards mutual funds. For actuating investors towards the investment in mutual funds, companies should abreast with negative factors and firmly establish confidence in them. The message to the investors is Happy Investing!!

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