

A Critical Analysis of Mutual Fund Industry in India

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Abstract: Today the Indian mutual fund industry is considered as one of the major and prominent player in the Capital Market. Mutual fund being a long term investment avenue is still relatively new for majority of Indian investors. The rate of savings in India is above 32% which is the second highest in the World after China. But still the Indian investors prefer Bank deposits, Post Office savings, and investment in physical assets like Gold and Real Estate. The Mutual Fund Industry has failed to tap the new investors, in other than metro cities in the past years. However the rate of investment in mutual funds has increased as compared to the past data, but still it is lower as compared to the developed countries. The paper aims to provide insights into the major challenges that the industry is facing currently. Also the paper will also concentrate on the available opportunities which the industry can focus to get more investors attention, which in turn will increase the investment in mutual funds.

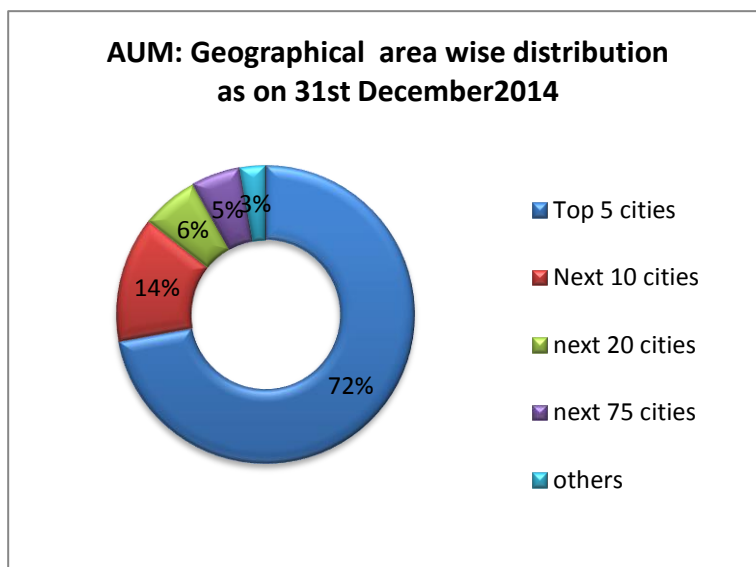
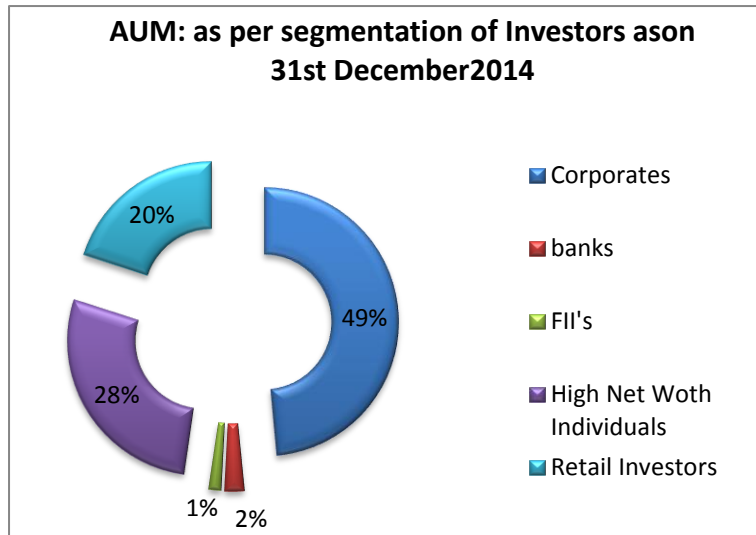
Keywords: Mutual Funds, Capital Market.

I. INTRODUCTION

The Indian mutual fund is now almost more than two decades old. The industries have also grown in various aspects like AMC's, Fund Schemes, number of investor's distributors, Regulators etc. The current scenario where markets are highly volatile and uncertain the investors perceive that the investment in Capital Market is quite risky. The numbers of investors have been increased and the industries have achieved success in tapping the customers, but they are majorly from the metros or the major urban areas. The industry is still trying to increase the penetration of mutual funds to all the category of investors.

II. CURRENT STATUS OF MUTUAL FUND INDUSTRY IN INDIA

The long term outlook for the Mutual Fund industry seems to be positive in India. Still there are various challenges which the industry is facing but by an appropriate approach they can convert it into opportunities. Corporate, Banks, Foreign Institutional investors and High Net worth Individuals still are domination the Mutual Fund. The mutual fund industry which started with traditional products like equity and debt funds have significantly expanded its portfolio by introducing a wide range of schemes like liquid, money market, index, gilt, insurance linked, exchange traded, ELSS, sector- specific and also gold ETF's providing a multiple investment alternatives in mutual funds for the investors. However the retail investors have increased from 228.3 billion in Sep. 2010 to 331.6 billion in Sep. 2014, but still they have a long way to go and capture the small ticket market. Total 139 new schemes were launched for the year ended 2013-14 which generated 2,36,470 million INR.



III. CHALLENGES

- I. The basic challenge faced by the industry is low awareness and financial literacy among the investors. The majority of investors are not financially literate; they don't have proper knowledge about the Market Product, Schemes, offering firms etc. They have funds but don't have the knowledge about the other financial products in which they can invest and earn good returns other than banks, Gold and real estate. Research conducted by government on financial inclusion also reveals that many salaried are not aware about Tax Savings Mutual Funds and their returns and still they rely on Insurance and NSE's to get tax exemptions.
- II. The mentality of Indian investors in case of investment is majorly dominated by banking products, real estate and gold. The investors are unaware about mutual being a low cost vehicle generating good returns. They still believe that investment in mutual funds is risky as it is an investment in capital market. To make those investors shift their investment from the traditional investment avenues to the mutual funds is quite a big challenge for the industry.
- III. One of the other biggest challenges faced by the industry at the bottom of the pyramid is also unavailability of proper documentation like Bank Account, PAN Card and Other details. The people in the rural area are not having such mandatory documents, so for these people to invest in the capital market is not possible.
- IV. It is the mentality of Indian investors to seek instant returns for an investment. Mutual Fund is a vehicle which is meant to give returns (growth) in a longer run. The current Mutual Funds have given an average return of more than 15% if invested for a longer period i.e. 10 years. So it is really difficult to convince the Indian investors to invest their funds in the capital market for a longer period.

V. One of the major issues faced by the industry is also the poor quality of services rendered to the customers. Majority of the investors are not aware about the schemes offered, their probable benefits, the risk-adjusted returns which the fund provides, fees they charge and the type of investment they make. However there are also news papers and news channels which give full information about the funds, but to reach the bottom of the pyramid and capture the rural and semi-urban market this is not sufficient.

IV. OPPORTUNITIES

I. Going beyond the Top Cities (Tier I):-

The industry have to go beyond Tier-I cities to reach the smallest retail investor at the bottom of the pyramid. Here, the Independent Financial advisors will play a key role in reaching the investors at all bottom level. They are the one who have the potential to reach the masses and widen the distribution network of the industry. These Independent investors are the known persons and are at the nearby place, so understand the investor's financial plan and convince them to invests in funds will be easy for them.

For this SEBI have to really take initiatives and modify the commission structures for these independent financial advisors. These initiatives will also motivate to increase their efforts towards widening the network of the industry by getting more retail inventors for mutual funds.

Micro Finance institutions are also the one who can also grab the investors at the bottom level. They are also the one can easily reach and convince the customers. SEBI and AMC's should also take steps to shake their hands with these institutions which can also be a great help for them to widen their distribution network.

II. Technology: As a Real Change Agent:

The mutual fund industry of India has seen a good rate of growth in the past 10 years which can be improved and increased by the efficient and effective use of technology available. The industry can use Radio's, Televisions and print media to reach the investors of the rural area. These advertisements will be helpful to create awareness about the products and the benefits.

To target the young investors Social Media can be an important platform for the AMC's. Face book and twitter can be really beneficial if the industry is targeting these young investors. The industry should try to come with the blogs discussing the products and its benefits.

III. Increasing Financial Literacy:

AMFI and SEBI along with the AMC's can make more efforts for increasing financial literacy among the investors by undertaking more and more investors awareness campaigns. This will make the investors more aware about the different mutual funds schemes available in the market which will met their financial needs. Still majority of Indian investors are not aware that investment in mutual funds can also lead to tax exemption

However the AMFI in collaboration with SEBI is conducting investors awareness campaigns, but still it should be done more rigorously because still the mutual fund investment is dominated by corporate and High worth Individuals.

IV. Systematic Investment Plan: A tool to reach lower income groups easily:

The industry can target lower income groups and capture it by effectively and efficiently promoting the SIP's. They should be made understood that they can equally earn good returns by investing in mutual funds if they don't have good lump sum amount on hand. They can even invest a mere 100 Rs a month in SIP and will fetch good returns.

V. CONCLUSION

The Indian Mutual Fund Industry is still relatively young, however since its inception the industry have shown an impressive growth. However as compared to the other developed countries the growth is still low. The industry has to adopt various strategies to convert the issues and challenges faced by them to convert it into opportunities in terms of products, distributors, distribution channels, investors, technology and operations. This will be equally beneficial to the industry as well as the investors.

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