Scope of mutual fund in india essay

SCOPE AND GROWTH OF MUTUAL FUNDS IN INDIA Erstwhile UTI was bifurcated into UTI Mutual Fund and the Specified Undertaking of the Unit Trust of India effective from February 2003. The Assets under management of the Specified Undertaking of the Unit Trust of India has therefore been excluded from the total assets of the industry as a whole from February 2003 onwards. Investement in Indian Matual Market The Indian mutual fund industry has significantly high ownership from the institutional investors. Retail investors comprising 96. 6 per cent in number terms held approximately 37 per cent of the total industry AUM as at the end of March 2008, significantly lower than the retail participation. Out of a total population of 1. 15 billion, the total number of mutual fund investor accounts in India as of 31 March 2008 was 42 million (the actual number of investors is estimated to be lower as investors hold multiple folios). As per the Invest India Incomes and Savings Survey 2007 of individual wage earners in the age group 18 to59 years conducted by IIMS Dataworks, only 1. 6 per cent invested in mutual funds.

Ninety per cent of the savers interviewed were not aware of mutual funds or of investing in mutual funds through a Systematic Investment Plan (SIP). The mutual fund penetration among the paid Indian workforce with annual household income less than INR 90, 000 was 0. 1 per cent. Mutual Funds vs Other Investment OptionsThe Indian mutual fund industry is in a relatively nascent stage in terms of its product offerings, and tends to compete with products offered by the Government providing fixed guaranteed returns. As of December 2008, the total number of mutual fund schemes was 1, 002.

Debt products dominate the product mix and comprised 49 per cent of the total industry AUM as of FY 2009, while the equity and liquid funds comprised 26 per cent and 22 per cent respectively. Open-ended funds comprised 99 per cent of the total industry AUM as of March 2009. While traditional vanilla products dominate in India, new product categories viz. Exchange Traded Funds (ETFs), Gold ETFs, Capital Protection and Overseas Funds have gradually been gaining popularity. As of March 2009, India had a total of 16 ETFs (0. 3 percent of total AUM) while the US had a total of 728 ETFs as of December 2008.

The India Mutual Funds Industry – The Current StateAUM Base and Growth Relative To the Global Industry India has been amongst the fastest growing markets for mutual funds since 2004; in the five-year period from 2004 to 2008 (as of December) the Indian mutual fund industry grew at 29 per cent CAGR as against the global average of 4 per cent. Over this period, the mutual fund industry in mature markets like the US and France grew at 4 per cent, while some of the emerging markets viz. China and Brazil exceeded the growth witnessed in the Indian market.

However, despite clocking growth rates that are amongst the highest in the world, the Indian mutual fund industry continues to be a very small market; comprising 0. 32 per cent share of the global AUM of USD 18. 97 trillion as of December 2008. | AUM to GDP Ratio The ratio of AUM to India's GDP gradually increased from 6 per cent in 2005 to 11 per cent in 2009. Despite this however, this continues to be significantly lower than the ratio in developed countries, where the AUM accounts for 20-70 per cent of the GDP. Share of Mutual Funds in Household Financial Savings Investment in mutual funds in India comprised 7. per cent of the gross household financial savings in FY 2008, a significant increase from 1. 2 per cent in FY 2004. The households in India continue to hold 55 per cent of their savings in fixed deposits with banks, 18 per cent in insurance and 10 per cent in currency as of FY 2008. The Benefits of Mutual Funds: Professional Investment Management. By pooling the money of thousands of investors, mutual funds provide full-time, high-level professional management that few individual investors can afford to obtain independently. Such management can be important to achieving results in today's complex markets. Diversification.

Mutual funds invest in a broad range of securities. This limits investment risk by reducing the effect of a possible decline in the value of any one security. Mutual fund shareowners can benefit from diversification techniques usually available only to investors wealthy enough to buy significant positions in a wide variety of securities. Low Cost. If you tried to create your own diversified portfolio of 50 stocks, you'd need at least $100, 000 and you'd pay thousands of dollars in commissions to assemble your portfolio. A mutual fund lets you participate in a diversified portfolio for as little as $1, 000, and sometimes less.

Convenience and Flexibility. One owns just one security rather than many, yet enjoy the benefits of a diversified portfolio and a wide range of services. Fund managers decide what securities to trade, clip the bond coupons, collect the interest payments and see that your dividends on portfolio securities are received and your rights exercised. It's easy to purchase and redeem mutual fund shares, either directly online or with a phone call. Quick, Personalized Service. Most mutual funds now offer extensive websites with a host of shareholder services for immediate access to information about your fund account.

Or a phone call puts one in touch with a trained investment specialist at a mutual fund company who can provide information you can use to make your own investment choices, assist you with buying and selling your mutual funds shares, and answer questions about your mutual fund account status. Ease of Investing One may open or add to your account and conduct transactions or business with the mutual fund by mail, telephone or bank wire. You can even arrange for automatic monthly investments by authorizing electronic fund transfers from your checking account in any amount and on a date you choose.

Total Liquidity, Easy Withdrawal One can easily redeem your shares anytime you need cash by letter, telephone, bank wire or check, depending on the fund. Your proceeds are usually available within a day or two. Life Cycle Planning With no-load mutual funds, one can link their investment plans to future individual and family needs — and make changes as your life cycles change. You can invest in growth funds for future college tuition needs, then move to income mutual funds for retirement, and adjust your investments as your needs change throughout your life.

Market Cycle Planning You can place your funds in equities when the market is on the upswing and move into money market mutual funds on the downswing or take any number of steps to ensure that your investments are meeting your needs in changing market climates. Investor Information Shareholders receive regular reports from the mutual funds, including details of transactions on a year-to-date basis. The current net asset value of your shares (the price at which you may purchase or redeem them) appears in the mutual fund price listings of daily newspapers. |

Periodic Withdrawals If you want steady monthly income, many funds allow you to arrange for monthly fixed checks to be sent to you, first by distributing some or all of the income and then, if necessary, by dipping into your principal. Dividend Options You can receive all dividend payments in cash. Or you can have them reinvested in the fund free of charge, in which case the dividends are automatically compounded. With some funds you can elect to have your dividends from income paid in cash and your capital gains distributions reinvested. Automatic Direct Deposit

You can usually arrange to have regular, third-party payments — such as Social Security or pension checks — deposited directly into your fund account. This puts your money to work immediately, without waiting to clear your checking account Recordkeeping Service With your own portfolio of stocks and bonds, you would have to do your own recordkeeping of purchases, sales, dividends, interest, short-term and long-term gains and losses. Mutual funds provide confirmation of your transactions and necessary tax forms to help you keep track of your investments and tax reporting.

Safekeeping When you own shares in a mutual fund, you own securities in many companies without having to worry about keeping stock certificates in safe deposit boxes or sending them by registered mail. Retirement and College Plans Mutual funds are well suited to Individual Retirement Accounts and most funds offer IRA-approved prototype and master plans for individual retirement. Funds also make it easy to invest — for college, children or other long-term goals. Online Services The internet provides a fast, convenient way for investors to access financial information.

A host of services are available to the online investor including direct access to no-load companies. Sweep Accounts With many mutual funds, if you choose not to reinvest your stock or bond mutual funds dividends, you can arrange to have them swept into your money market fund automatically. Asset Management Accounts These master accounts, available from many of the larger fund groups, enable you to manage all your financial service needs under a single umbrella from unlimited check writing and automatic bill paying to discount brokerage and credit card accounts.

Margin Some mutual fund shares are marginable. You may buy them on margin or use them as collateral to borrow money from your bank or broker. Challenges and Issues Faced By the Mutual Fund Industry Low Levels of Customer Awareness Low customer awareness levels and financial literacy pose the biggest challenge to channelizing household savings into mutual funds. IIMS Dataworks data released in 2007 establishes that a low awareness level among retail investors has a direct bearing on the low mutual fund off take in the retail segment.

The general lack of understanding of mutual fund products amongst Indian investors is pervasive in metros and Tier 2 cities alike and majority of them draw little distinction in their approach to investing in mutual funds and direct stock market investments. A large majority of retail investors lack an understanding of risk-return, asset allocation and portfolio diversification concepts. Limited Focus on Increasing Retail Penetration The Indian mutual fund industry had limited focus on building retail AUM and has only recently stepped up efforts to augment branch presence in Tier 2 and Tier 3 towns.

Players have historically garnered AUM by targeting the institutional segment that comprises 63%AUM share as at March 2008. Large ticket size, tax arbitrage available to corporates on investing in money market mutual funds, easy accessibility to institutional customers concentrated in Tier 1 cities are the factors instrumental in mutual fund houses focussing on the institutional segment. Building retail AUM requires significant distribution capability and a wide footprint to be able to penetrate into Tier 2 and Tier 3 towns, which AMCs have recently started focusing on.

Institutional AUM, however, makes the industry vulnerable to the possibility of sudden redemption pressures that impact the fund performance. Limited Focus beyond the Top 20 Cities The mutual fund industry continues to have limited penetration beyond the top 20 cities. Cities beyond Top 20 only comprise approximately 10% of the industry AUM as per industry practitioners. The retail population residing in Tier 2 and Tier 3 towns, even if aware and willing, are unable to invest in mutual funds owing to limited access to suitable distribution channels and investor servicing.

The distribution network of most mutual fund houses is largely focused on the Top 20 cities given the high cost associated with deeper penetration into Tier 2 and Tier 3 towns. Limited Innovation in Product Offerings The Indian mutual fund industry has largely been product-led and not sufficiently customer focused. The popularity of NFOs triggered a proliferation of schemes with a large number of non-differentiated products. The industry has had a limited focus on innovation and new product development, thereby catering to the limited needs of the customer. Limited options The Indian mutual fund industry offers limited investment options viz. apital guarantee products for the Indian investors, a large majority of whom are risk averse. The Indian market is still to witness the launch of green funds, socially responsible investments, fund of hedge funds, enhanced money market funds, renewable and energy/ climate change funds. Limited Flexibility in Fees and Pricing Structures The fee structure in the Indian mutual fund industry enjoys little flexibility unlike developed markets where the level of management fees depend on a variety of factors such as the investment objective of the fund, fund assets, fund performance, the nature and number of services that a fund offers.

While the expenses have continuously risen, the management fee levels have remained stagnant. In the absence of a framework to regulate distributors, both the distributors and the mutual fund houses have exhibited limited interest in continuously engaging with customers post closure of sale as the commissions and incentives had been largely in the form of upfront fees from product sales.

As a result of the limited engagement, there have been rising instances of mis-selling to customers. Limited Focus of the Public Sector Network on Distribution of Mutual Funds Public sector banks with a large captive customer base, significant reach beyond the Top 20 cities in semi-urban and rural areas, and the potential to build the retail investor base, have so far played a very limited role in mutual funds distribution.

The India Post network operating the largest postal network in the world majority of which is in rural areas, is stated to have 250 post offices selling mutual funds of five AMCs only; further most of the post offices selling mutual funds are located in Tier 1 and Tier 2 cities which are already been catered to, by national level and other distributors. India Post is a formidable channel which has been underutilised to date for mutual fund distribution.

The postal network also serves as a means to facilitate inclusive and equitable growth to all regions and social groups by providing them with access to financial products such as mutual funds. Multiple Regulatory Frameworks Governing Financial Services Sector Verticals The regulatory and compliance requirements vary across verticals within the financial services sector pecifically mutual funds, insurance and pension funds each of which are governed by an independent regulatory framework and are competing for the same share of the customer’s wallet. The mutual fund industry lacks a level playing field in comparison with other verticals within the financial services sector.

The mandatory PAN card requirement for investing in mutual funds is perceived to restrict significant potential of the mutual fund industry in being able to tap small ticket investors from investing in mutual funds The recently introduced NPS regulations requiring the AMCs to create a separate legal entity for pension funds management has created an additional cost structure for the mutual fund players. Outsourcing funds management in excess of INR 80 billion by insurance companies is not permitted and thus restricts an additional revenue opportunity for the mutual fund industry.