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MUTUAL FUNDS-SCALING NEW HEIGHT OF INDIAN ECONOMY

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Introduction

The Indian Mutual Fund industry is one of the fastest growing and most competitive segments of the financial sector. But the rate of growth has come down since its inception stage. Some of the reasons for the lack of penetration is due to low demand of mutual funds from the public, due to financial literacy, cultural attitudes towards savings and investments. Low supply of mutual funds outside the major cities, which is due to perceived lack of demand from the general retail investor or due to lack of available manpower to offer services in these areas.

The Indian mutual fund industry finds itself in an economic landscape which has undergone rapid changes over few years. But in recent times it saw its low. But there is a strong belief that it has not reached its peak. One of the biggest challenges that the mutual fund industry faces is the lack of healthy participation from a larger part of the country. As stated earlier that one of the reasons for under penetration of mutual funds is the lack of understanding about the mutual funds and how they are different from ordinary investments and their management and risk and return of the same. It is reported that most people remain unaware of basic financial concepts such reward (return) to variability (risk) ratio, asset allocation, benefits of diversification, passive-active investment strategies etc. Most Indian households tend to be extremely risk averse and wary where they invest their hard earned savings. As a result, they are conservative with their savings and tend to invest in 'safe' assets. Investors perceive mutual funds as risky investments (despite the fact that several funds invest in government bonds, thereby being safer than bank deposits) and tend to invest their savings in tangible assets such as gold, jewelry, real estate or fixed deposits in banks. These choices are a result of a mindset which has generally seen investing in stock markets and other market traded securities as akin to gambling. This is reflected by the proportion of savings of Indian households in the financial markets. ***The gross domestic savings and investment at current market price by households was 22.3% of GDP 2011-12 (RBI Annual Report, 2012). The household investment in physical and financial assets was 14.3% and 8.0% respectively. The investment in shares and debentures as a percentage of gross financial savings by households was 3.6% during 2011-12. The gross financial savings by household in mutual funds is estimated at 2.5% out of total 3.1% in shares/debentures.***

According to a Max New York Life-NCAER India financial protection survey, Indians prefer keeping 65 percent of their savings in liquid assets like banks, post office deposits or as cash at home, while investing percent in physical investments.
The Mutual fund industry offers something for everyone. A large number of schemes are offered now a days and SEBI itself taken proactive steps to promote them with financial literacy by AMCs and offering are made to suit the investor's risk appetite, desired returns or period of investment. ***As of March 2013, a total of 1294 different mutual fund schemes were on offer across AMCs (SEBI Annual Report 2012-13). Investors can choose the schemes according to the structure:***Open-ended Funds or Close-ended Funds or by the objective of their investment: Growth Funds, Income Funds, Balanced Funds or Money Market Funds.

However, one of the problems of having a large and established mutual fund industry is that this variation serves to intimidate rather than inform a small investor. To ascertain there exist mutual funds which focus exclusively on one type of asset class and some funds which hold securities from different assets. At the same time, several mutual fund schemes have two to three variations on each fund such as growth, monthly dividend, annual dividend etc.

Besides offering different schemes for investment, AMCs also offer several investment plans to their customers. Systematic Investment Plans (SIPs), Systematic Withdrawal Plans (SWPs), Systematic Transfer Plans, Triggers, Insurance Options and many other plans are designed to give a degree of control and flexibility to the investor.

While all this is highly beneficial for a well informed investor and experienced , all this is highly intimidating to an investor who is barely financially literate and has little time (or energy) to do his/her research before buying a fund, rather a lay investor. With all this complexity, the investor prefers his savings to lesser complicated fixed deposits and/or physical assets. Lack of standardization in the processes and customer service standards creates unnecessary hassles in investing and investors are sometime hesitate to put the money forward.

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The unwanted combination of ignorance, risk-aversion and mutual fund complexity are huge hurdles that AMCs in India will have to overcome if there is to be any increase in retail participation in mutual funds. Investors need to be made to look beyond the traditional avenues of investment through sensitization and education and creating their importance and awareness. In addition to this, campaigns should be tailored to increase the visibility of debt funds which generally tend to be safer than equity funds.

Distributional Efficiency and Number of Agents

Another challenge that AMCs in India face is increasing the efficiency of their distributional channels. In other words, attracting new investors in small cities does not come cheaply for the Asset Management Companies. More money has to be spent on distribution and marketing for getting investments in urban and under developed places.

There are other causes for holding mutual funds back on increasing their presence in rural India, such as ,

Investor Awareness

It is found that a typical investor was adequately informed about different mutual fund products, an overwhelming majority negative. Asset Management Companies are of the opinion that investors in metros are significantly better informed as compared to investors in non-metro cities. Obviously, this lack of awareness on part of investors is one of the single largest factors affecting penetration according to the Asset Management Companies. The other programmes such as awareness campaigns wherein partnerships with colleges can be established to inculcate financial knowledge at early earning stage. Taking the assistance of famous celebrities to spread financial awareness regarding mutual funds at category level can be done and other include opening up of MF ‘education centers’ in smaller towns could serve as counseling centers.

Distribution Channels

It is also found that finding quality distributors continues to present a formidable challenge. Asset Management Companies are of the opinion that due to the current regulations that impose a limit on the incentives, good quality distributors are hard to find and that even if a reasonable commission is offered, it is difficult to recruit sufficient number of distributors which, clearly indicate that there is lack of skilled distributors. Finding quality distributors especially in small towns and rural areas is a major hurdle towards increasing mutual fund penetration. It can be suggested that if distribution, if carried out through post offices could result increasing the penetration of mutual funds and if such step is initiated , this would be a significant step considering the recent push by India Post of the Post Office Saving Schemes and also helps India Post as it is a loss making enterprise, an introduction of such mutual fund sales through India Post could also help them in reducing their deficit and this could be a highly beneficial move for the government too. Furthermore, such a well networked organization such as India Post through its broad network spread throughout the nation offers a distribution channel, which could a beneficial and that could be leveraged in terms of costs.

It is also a good sign when in January 2001, India Post in association with IDBI-Financial launched a pilot scheme in the Delhi, Mumbai, Kolakata and Patna and from 15th June 2001 onwards, sales of mutual funds by SBI, Principal, Franklin-Templeton and Reliance Mutual Fund were extended to cover post offices in all major capital and other cities all across the country. Costs when entering new areas where there are no existing mutual funds are also a barrier for the fund houses to establish the footprint. Asset Management Companies were keen for allowing differential incentives for such locations (including, possibly, upfront fees to distributors) to make it mutual fund distribution financially viable and compete with the sale of other financial products.

Smaller fund houses and those in private sector count mis-selling by the distributors as a major factor affecting the penetration of mutual funds. Asset Management Companies suggested making the offence of misselling more stringently punishable and SEBI imposed strict punishments and also starting educating investors. It is also found that Asset Management Companies do not feel that agents have a clash of interest when they sell other financial products along with mutual funds. It is also found that Asset Management Companies thinks the need of using technology as much as possible to increase the reach. Facilities like smart phone mobile should be introduced which could help accretions of daily SIPs particularly in small towns and help small investors participate in equity and debt markets, with high security, to prevent from possible hacking.

In order to tackle the shortage of quality distributors, Asset Management Companies suggest that the country-wide network of stock brokers can be effectively utilized. They propose that fund houses should be allowed to pay commissions to them with relaxation in their registration not be made compulsory. Asset Management Companies also pointed that restricting the scope of New Cadre Distributors to simple products affects penetration in non-metro locations.

Regulatory Framework
Fund houses also consider "Know Your Customer" (KYC) norms, excessive paperwork and the restrictions impose on transactions by cash as roadblocks to penetration by the Public Asset Management Companies consider the regulatory restrictions on advertisements as a reason for under-penetration, but there should be watch of the SEBI, in order to protect the investors from frauds, which the country has witnessed in the past.

Asset Management Companies demand that restrictions on advertisements should be relaxed and the advertising guidelines should be simplified to enable better communication, but there should be some control over these advertisements by the SEBI and approval of the SEBI must be made mandatory. There are some sources to compare one's track record with other competing products so that the investors can better understand the benefits of investing in mutual funds.

Positive Trends towards Progress
The recent simplification of common KYC norms by SEBI by having i) Common KYC to cover entire financial services sector, ii) fetching KYC related data directly from KYC Registration Agency (KRA) and not from investors and iii) further simplification of rules around disclosure of performance are steps in the right direction, a positive step towards a healthy investments invitation. By having a standard format of application form across the industry, uniform procedures and practices like transmission, change of name, and issues with signature mistakes will make the entire investment process easier and simplified for the investor.

The other part with respect to Tax incentives , by making mutual funds more tax-efficient and friendly, more investors can be attracted and hence, penetration can be increased. There are other novel ideas include introduction of new policies to make investment in mutual fund schemes qualify under Capital Saving Scheme under Income Tax, extension of ELSS Tax benefit for 3 more years in case of rollover and making mutual funds part of pension plans. Also Asset Management Companies intend that there is a lack of level playing field as compared to other competing products in terms of tax advantages, disclosure levels, after sales support and other regulations. If these issues are handled property for the benefit of the investors , it will be very hard for the Asset Management Companies to increase the penetration levels.

Conclusions
It is evident from the past that there are factors which affect the Mutual Fund penetration in India i.e lack of information to the customer about the Mutual Funds, quality distributors, cost of entering new regions, especially rural and under developed regions, regulations with KYC and other transactions. If these are addressed there is a very possibility that Mutual Funds Sector will scale its new heights in Indian economy and hence paves way for the development of the country.

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