"Role of Mutual Funds in the growth of Indian Economy"

Ms.RupamOjha	**AshuBhojwani**
Research Scholar,	Assistant Professor
Rai University	Rai University
Email Id: rupamojha@gmail.com	Email Id: asubhojwani@gmail.com

Abstract:

The Indian mutual fund industry has come a long way since its inception in 1963. The industry witnessed sufficient growth on all parameters - the number of fund houses, the number of schemes, funds mobilized, assets under management, etc. Present study is descriptive in nature and based on secondary data. The main objective of the study is to identify the role of mutual funds in the growth of Indian economy. After the analysis researcher found out that the mutual fund industry has recorded significant impact on progress of Indian economy.

Moreover, the industry faces a number of challenges like low diffusion ratio, lack of product differentiation, lack of investor awareness and ability to communicate value to customers, lack of interest of retail investors towards mutual funds and evolving nature of the industry. Based on the analysis the study suggests some recommendation to address these challenges.

Keywords: Mutual fund, Economy, India

INTRODUCTION

The Indian capital market has been growing tremendously with the reforms in industrial policy, reforms in public and financial sector, and new economic policies of liberalization, deregulation and restructuring. The Indian economy has opened up and many developments have been taking place in the Indian capital market and money market with the help of financial institutions or intermediaries which foster savings and channel them to their most efficient use. One such financial intermediary who has played a significant role in the development and growth of capital markets is Mutual Fund. Mutual funds have opened up new vistas to millions of small investors by virtually taking investment to their doorstep. A competent fund manager should analyze investor behaviour and understand their needs and expectations to gear up the performance to meet investor requirements.

With reforms in financial sector and the developments in the Indian financial markets, Mutual Funds (MFs) have emerged to be an important investment avenue for retail (small) investors. The investment habit of the small investors particularly has undergone a sea change. Increasing number of players from public as well as private sectors has entered in to the market with innovative schemes to cater to the requirements of the investors in India and abroad. For all investors, particularly the small investors, mutual funds have provided a better alternative to obtain benefits of expertise- based equity investments to all types of investors.

ORIGIN OF MUTUAL FUNDS

The history of mutual funds dates backs to 19th century and that time it was introduced in Europe, in particular, Great Britain. Robert Fleming set up in 1968 the first investment trust named as Foreign and Colonial Investment Trust which promised to manage the finances of the moneyed classes of Scotland by spreading the investment over a number of different stocks.

This investment trust and other investments trusts which were subsequently set up in Britain and the US, resembled today's close – ended mutual funds. The first mutual in the U.S., Massachustsettes investor's

Trust, was set up in March 1924. This was the open – ended mutual fund. The stock market crash in 1929, the Great Depression, and the outbreak of the Second World War slackened the pace of mutual fund industry, innovationsin products and services increased the popularity of mutual funds in the 1990s and 1960s. The first international stock mutual fund was introduced in the U.S. in 1940. In 1976, the first tax – exempt municipal bond funds emerged and in 1979, the first money market mutual funds were created. The latest additions are the international bond fund in 1986 and arm funds in 1990.

This industry observed substantial growth in the eighties and nineties when there was a significant increase in the number of mutual funds, schemes, assets, and shareholders. In the US, the mutual fund industry registered a ten – fold growth the eighties. Since 1996, mutual fund assets have exceeded bank deposits.

In 1954, the committee on finance for the private sector recommended mobilisation of savings of the middle-class investors through unit trusts in India. Thus, in 1963 the concept of mutual fund took root in India when Unit Trust of India was set up with the twin objective of mobilising household savings and investing the funds in the capital market for industrial growth. The Unit Trust of India (UTI) was the first mutual fund set up under the UTI Act, 1963, a special act of the Parliament. It became operational in July 1964. The first scheme launched by UTI was Unit Scheme 1964 (US-64), the first open-ended and the most popular scheme. And, by the end of 1988, UTI had Rs.6,700crores of assets under management. Over a period of 25 years UTI funds grew fairly successfully and gave investors a good return, and therefore, in 1989, as the next logical step, public sector banks and financial institutions were allowed to float mutual funds and their success emboldened the government to allow the private sector to foray into this area. Since then Indian mutual fund industry had seen dramatic improvements, both quality wise as well as quantity wise. The late 1980s and early 1990s marked the entry of public sector mutual funds set up by public sector banks and Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC). SBI mutual fund was set up in June 1987 followed by Canara Bank mutual fund in December 1987, Punjab National Bank mutual fund in August 1989, Indian Bank mutual fund in November 1989, Bank of India mutual fund in June 1990 and Bank of Baroda mutual fund in October 1992. LIC established its mutual fund in June 1989 while GIC had set up its mutual fund in December 1990.

LITERATURE REVIEW

MeenuVerma (2008) conducted a study aimed to investigate the effect of demographicprofile and personality type of the investor on investment choice. The study solely based on the information obtained through a survey process in India. The study used descriptive research design, particularly survey research. The study was completely based on primary data. The personal survey method was used and the sample size of 500 was chosen for the study. The results show that differences in investment choice are significant for various combinations of independent variables like occupation, gender and age, education and personality.

SoumyaSaha and MunmunDey (2011) conducted a study focusing on measuring theinvestors' expectation and their preference. It also attempted to gauge the factors that theytake into consideration before making any investment in mutual fund as well as the awareness level among individual investors regarding mutual fund investment. The sample survey has been conducted in Kolkata city during the period November 2008-January 2009. A sample of 100 individual mutual fund investors has been surveyed through a pre-tested questionnaire. The individual investors included people who have invested in mutual funds and have some knowledge about the basic terminologies involved with mutual funds. The study attempted to identify the factors perceived to be important by the investors before investing in any mutual fund.

Ravinder Kumar and Abhijeet Chandra (2010) , studied the selection behaviour with respect to mutual fund investments by individual investors. Individual investors differ in mutual fund investment decisions. This is because they can be distinguished on the basis of the sources of information they use for their investment decisions, several selection criteria employed for mutual fund investments, and particularly because of their different demographic characteristics. A sample of 200 individual investors across the Delhi-NCR region was used for the study. The study examined three factors namely, sources of information, selection criteria, and mutual fund investment behavior. The study reveals that individual investors are differentfrom other class of investors. They rely, to a great extent, on financial advisors and professionals for information relevant to mutual fund investment decisions. This study suggests that expansion of information sources, selection criteria, and other decisive factors regarding investment as well as redemption by individual investors are major issues to be considered by mutual fund firms in order to understand this market in a better way.

The study by K. LakshmanaRao (2011) presents mutual fund investors awareness and adoption of different mutual fund schemes with educational levels. A sample of 350 respondents has been selected for this study for three districts in the Andhra Pradesh. Chi-square test was used to examine the association between the formal and technical education factors with the awareness and adoption of the mutual fund schemes. The study recommended that that the three leading categories of agencies involved i.e., (i) the Regulatory authorizes like SEBI, IRDA; (ii) AMFI and(iii)MF Asset Management Companies have to conduct educational and orientation programmers in collaboration with yet other three kinds of leading organizations i.e., (i) Universities, (ii) Institutes and(iii)Stock Exchanges, on various aspects of MF Schemes, so that the investors will enhance their knowledge for making more prudent investment decisions.

Rajeswari and Ramamoorthy (2001) have conducted the study titled, "An Empirical Studyon Factors Influencing the Mutual Fund/Scheme Selection by Retail Investors" to understand the factors influencing the fund selection behavior of 350 mutual fund investors in order to provide some meaningful inferences for Asset Management Companies(AMC) to innovatively design the products. The analysis was done on the basis of product qualities, fund sponsor qualities and investor services using questions framed on a five point Likert scale. The evaluation was done by factor analysis and principal component analysis to arrive at the findings of the study which were as follows: the most important product quality was the performance of the fund followed by brand name of the scheme; sponsor related factor that given moreimportance by the investor was the expertise of the sponsor in managing money and finally the investor service that was considered important was the disclosures on investment objectives, methods and periodicity of valuation in advertisements.

Singh andVanita (2002) have examined the investors' preferences and perception towards mutual fund investments by conducting a survey of 150 respondents in the city of Delhi. The study has investigated in the following research issues: 1) the basic objectives form Vestments and average time horizon; 2) investment experiences; 3) risk, return, safety and diversification; 4) preferences of financial assets and investment schemes of mutual funds. The findings of the study were that the investors' preferred to invest in public sector mutual funds with an investment objective of getting tax exemptions and stayed invested for a period of 3-5 years and the investors evaluated past performance. The study further concludes by stating that majority of the investors were dissatisfied with the performance of their mutual fund and belonged to the category who held growth schemes.

Singh Chander (2004) examined 400 investors in major cities of Punjab, Delhi and Mumbai by administering a Questionnaire having various parameters of perceptions of investors towards mutual fund. Factor analysis was used to find the significant factors affecting perception of investors. The research was done in two parts. The first is to find preferences and perception of mutual fund and second was to find reasons for investors withdrawing investments from mutual funds. The study established that middle class salaried investors and professionals perfected to have disclosure of net asset value on a day today basis and wanted to invest in mutual funds in order to get higher tax rebates. Further it is evidenced that small investors perceived mutual funds to be better investment alternative and public sector investments to be less risky: The study further revealed that the investor did not have confidence on the management of funds and regulators of the market and cited these as reasons for withdrawing from the mutual fund investment.

Syama Sunder (1998) conducted a survey to get an insight into the mutual fund operationsof privateinstitutions with special reference to Kothari Pioneer. The survey revealed that awareness about Mutual Fund concept was poor during that time in small cities like Visakhapatnam. Agents play a vital role in spreading the Mutual Fund culture; open-end schemes were much preferred then; age and income are the two important determinants in the selection of the fund/scheme; brand image and return are the prime considerations while investing in any Mutual Fund.

RESEARCH OBJECTIVES:

1. The main objective of the study is to identify the mutual fund in role of economy.
2. To give suggestion for improving the awareness about mutual fund.

THE ROLE OF MUTUAL FUNDS IN SHAPING INDIAN ECONOMY

In India, Mutual funds have a long and successful history. In 1963, it all started with the formation of the Unit Trust of India created by the Reserve bank of India and the government. Various players from the private and public sectors entered the mutual fund market, which was now thriving in the next two decades. Since 1999 were two fundamental turning points in making mutual funds more palatable to the public and in 1996, the SEBI Regulations and the exemption of mutual funds from income tax dividends.

Mutual funds have shifted towards a phase of cohesive growth and consolidation in the last 15 years. In India, increasing awareness amongst investors contributing to the growth of the mutual funds market and mergers of renowned private sector fund houses.

Due to the diversification of investment capital in shaping the Indian economy and keep it stable the role of mutual funds has been significant throughout this period. In the mutual funds market there have been varying trends which have influenced the shareholders' investment decisions. UTI was the most popular option for investing in mutual funds, given its history and stability in the early 90s. As the average Indian preferred a low-risk investment due to a conservative outlook income/debt-based schemes became very popular in the 2000s. Shareholder decisions to a large extent have been influenced by The age, occupation, place of residence, and gender of the investor.

In the consistent development of the Indian economy the steady growth in mutual funds investment is reflected barring a few instances. There are four critical aspects of the financial system from a bird's eye perspective- transparency, inclusion, efficiency and stability. Towards the financial development of the country mutual funds are a definite contributor as an intermediary that improves each of these aspects.

In the financial market the large volume of mutual funds allows for active participation as a pool of resources improving inclusion and efficiency of the market. On in-depth market analysis, extensive market research and a deep understanding of the financial currents the diversification of mutual funds is an informed decision based. A stable market is created by every decision is data-driven and this knowledge of risks and returns. A clear idea of the ground they stand on is given by complete transparency about investment strategies and expected returns gives investors which creates trust and economic certainty among shareholders.

Towards the total economic stability of the country making them a chef influencer of the Indian economy all these factors contribute.

PERFORMANCE EVALUATION OF MUTUAL FUNDS

Since 1964, in India, the mutual fund industry, has come a long way. In the last forty- five years it has steadily progressed from one player industry in the last forty-five years with average assets under management of Rs. 4933 billion to where it is today nearly thirty-eight players. The industry is now at the paths of growth. The economic growth can be sustained which would go a long way in building a strong foundation while it is of utmost importance that positive steps in the right direction are taken to nurture the industry. In 1991, the implementation of economic reform measures, in the financial system of the country the Indian economy has been opened up and many developments have been taking place. As compared to many other emerging markets and economy of developed countries India's financial system is considered sound and already ensured stability. Including merchant banking, leasing and venture capital India has observed a rapid growth of capital market, money market, and financial services industry. The savings of the people for the purpose of productive investment has been channelized by the credit of financial market.

RECOMMENDATION

- Mutual fund advisory companies should start analyzing size of the investment to examine the behaviour of the investors towards mutual funds.
- Mutual fund advisory companies have to provide information based on their analysis and research to the group of the investors by linking performance of the mutual funds schemes and investment pattern of the investors.
- Corporate house always focus on mutual funds since they give risk free return at certain level compare to stock market. Thus they should hire professional advisors in house to make their investment decision and portfolio strong.
- Asset management companies should provide more products targeted to HNI investor group
- Government of India should take initiate to promote mutual funds more aggressively in tier II and III cities as well as rural area

CONCLUSION

The economy on many an occasion have been boosted by mutual funds. In 1991, post the introduction of the Money Market Mutual Funds (MMMF), there has been a steady rise in short-term investments. In 2014-15, number of investors grew by 22 lakhs. Over the years the investor mind set has changed and people are willing to invest in moderate-risk assets. In addition to taking advice from mutual fund managers, the typical shareholder is now aware of the current economic scenario and tends to conduct his own research as well.

To the middle- and high-income households, concentrated in cities the current awareness about the advantages of investing in mutual funds is limited. The rural market remains untapped comparatively. For fund managers there is a great opportunity which can be mutually beneficial for investors and companies alike. The rural scenario has been taken into account by the mutual fund and substantiating economic growth and work towards creating awareness in that sector as well.

Towards mutual funds investment, to shape our economy better there is a great need for a focused and driven approach looking towards in future. On investment and lower risks innovative schemes that have a better return and can be devised to attract investors. Due to the mutual fund industry the Indian economy has developed into a strong entity. The road ahead is a difficult one. Towards creating a stable and efficient market to become an integral part of our economy mutual funds' investments have the potential mutual fund managers, providing fund houses and investors themselves work in three-part harmony.

REFERENCES

Gupta, P., and A. Gupta,(2004.) "PerformanceEvaluation of Select Indian Mutual Fund Schemes: An Empirical Study." The ICFAI Journal of Applied Finance, December: 81-98.

K.Laksmana Rao (2011), "Analysis of Individual Investors' Behaviour towards Mutual Fund Schemes", Journal on Banking Financial Services and Insurance Research, .1(7):65-78

MeenuVerma. (2008). "Wealth Management and Behavioral Finance: The Effect of Demographics and Personality on Investment Choice Among Indian Investors." ICFAI Journal of Behavioral Finance, 5(4):31-57.

Rajeswari, T. R., and V. E. Rama Moorthy (2001) An Empirical Study on Factors Influencing the Mutual Fund/Scheme Selection by Retail Investors. Retrieved on January 25, 2015 from http://www.utiicm .com/Cmc/PDFs/ 2001/rajeswari.pdj

Ravinder Kumar and Abhijeet Chandra (2010), "Selection Behavior of Individual Investors: Evidence from Mutual Fund Investment", The Journal of Capital and Financial Services, 4(1):12-27

SoumyaSaha and MunmunDey (2011), "Analysis of Factors Affecting Investors' Perception of Mutual Fund Investment", TheIUP Journal of Management Research, 10(2):23-44

Singh, Chander, (2004) "Performance of mutual funds in India – an empirical evidence", ICFAI journal of applied finance December, 1(4): 81-98.

Singh, Y. P., and Vanita, (2002)"Mutual Fund Investors' Perceptions and Preferences- A Survey." The Indian Journal of Commerce, 55 (3):8-20.

SyamaSundar, P. V., 1998, "Growth Prospects of Mutual Funds and Investor perception with special reference to Kothari Pioneer Mutual Fund", Project Report, Sri SrinivasVidyaParishad, Andhra University, Visakhapatnam.