INTERNATIONAL JOURNAL OF ENGINEERING AND MANAGEMENT SCIENCES

www.scienceandnature.org

ANALYSIS OF MUTUAL FUND INDUSTRY OF INDIA IN THE LIGHT OF NEW REGULATIONS AND INTERNATIONAL FACTORS

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ABSTRACT
Indian mutual fund industry is going through a very crucial phase because of the changing regulations and confusing atmosphere. This study will discuss the impact of regulatory changes by SEBI on mutual fund industry and it's after affects. It will also throw some light on the international factors that affected Indian mutual fund industry and its sentiments. At the end of the, there will be some suggestions for the regulator, the intermediaries and the Investors. This is an attempt to minimize the level of negativity and pessimism from the market and the to create an atmosphere of trust, information and optimism

KEYWORDS: SEBI, Mutual Fund Industry.

INTRODUCTION

Not very long ago, mutual fund as an investment tool was considered to be an absurd idea and infact people preferred to do Fixed Deposits and invest in Insurance specifically LIC to achieve their financial goals. Then came an era of Unit Trust of India and level of awareness about this new product started to increase. In 1963, UTI was established by an Act of Parliament to offer mutual funds in India. Operationally, UTI was set up by the Reserve Bank of India, but was later delinked from the RBI. The first scheme, launched by UTI, was Unit Scheme 1964. Later in the 1970s and 80s, UTI did some innovations and offered different schemes to suit the needs of different classes of investors. The investible funds corpus of UTI was about Rs 600 crores in 1984. By 1987-88, the assets under management (AUM) of UTI had grown 10 times to Rs 6,700 crores. From 1987-88 to 1992-93, the AUM increased from Rs 6,700 crores to Rs 47,004 crores, nearly seven times. Since 1999, the mutual fund industry scaled newer heights in terms of mobilization of funds and number of players. Deregulation and liberalization of the Indian economy had introduced competition and provided impetus to the growth of the industry. Between 1999 and 2005 the size of the industry has doubled in terms of AUM which has gone from above Rs 68,000 crores to over Rs 1, 50,000 crores. By the year 2013, mutual fund's asset under management risen to whopping 8, 00,000 crores. Despite this the overall contribution of mutual fund in India to the total savings of the country is very minimal and is less than 4% which is not comparable to developed or developing countries. But still, over 40% of Indian household savings, according to a Karvy Private Wealth report, find their way into bank deposits. And now, the mutual fund industry, which has been able to tap just about 3.8% of household savings in India, will plan to bite into that pie with greater product diversification and innovation.

SEBI's Regulatory Changes

Here are some major changes by SEBI for the mutual fund industry in the recent past-

1. Entry load abolished in May 2009.
2. Introduction of Direct schemes apart from the ongoing schemes in which less expense ratio will be charged for the former one resulting in better returns for the direct investors.
3. Whole of the India is being divided into top 15 cities and beyond 15 cities in term of Asset under management, in which higher brokerages will be paid to the distributors of beyond 15 cities and lesser for top 15 so as to lure retail participation and promote mutual fund in remote areas.
4. Stricter KYC norms for investors so as to check money laundering and black money.
5. Proposed demarcation between advisor and agent in which advisor will be charging fees directly from investors and agent will get commission from the AMC. In this regard, a single person can't be both advisor and an agent.

International Factors

1) The subprime crisis of USA shattered the stock markets across the globe. Indian stock market also succumbed to the pressure and sensex which was trading above 21000 in January 2008 came down to 8000 taking away wealth of thousand of investors. Mutual fund industry also faced the same fate and crores of rupees of investor lost in that period.
2) FII inflows which are the backbone of Indian market came down.
3) In fact it became negative in the years 2008 and 2009.
4) Exit of bigger and established fund houses like Fidelity and Standard Chartered also invoked the wave of pessimism in the market.
5) Ongoing European Debt Crisis made people guessing about the future which is affecting the overall sentiments.
6) Policy paralyses of the government and slow pace of cut in government spending send a very negative signal to international community to take exposure of Indian Market.

Impact on the Industry

With the introduction of new regulatory norms by Securities and Exchange Board of India and the ongoing global financial crisis, the already weak mutual fund industry is now at odds with regulator and the distributor. Before the abolition of entry load mutual fund industry witnessed a spectacular growth because of its distributor support. The future of the industry at that time was considered to be very bright and inline with that many new players got registered as mutual fund in India including foreign funds.

But after abolition of entry load, the picture changed drastically and an atmosphere of distrust and fear pertained till date on mutual fund players and associated entities. The mutual fund industry lost more than 32 lakh investors, measured in terms of individual accounts or folios, in the first 10 months of the financial year 2012-13. "The number of folios, have fallen to 4.32 crore at the end of January-2013 from 4.64 crore in the previous fiscal (2011-12), translating into a decline of 32.45 lakh **new investor accounts**," according to the latest data of the Securities and Exchange Board of India (Sebi) about total investor accounts with the country's 44 fund houses.

Equity schemes were the biggest losers in terms of folios, losing 40.2 lakh new investor accounts. The total number of folios in equity funds plunged to 3.36 crore at the end of January 2013 from 3.76 crore in the previous financial year.

CONCLUSION

Now in this scenario the future of the industry seems to be very bleak and overall scenario is very negative. There is a strong possibility that we may witness the increased mortality of mutual fund players including intermediaries. To contain the existing problems and disastrous future certain measures are required to be taken.

One of the most important roles that is being required to be played is by the financial planners who have been in the backseat for a very long time. Financial planners who are not full fledged agents of mutual fund but poised to play a very important role in the industry in future. It will take some time to when the Certified Financial Planners will emerge as a front runner but the level of awareness and support from the regulator is lacking.

SUGGESTIONS

Here are some suggestions that can be of immense help if implemented.

For Financial Planners

1) The planners have to make sure that they are able to clearly demarcate themselves from existing agents and distributors who are involved in brokerage based selling. The planner who has been working in the capacity of distributor has to realize his changed role and has to get out of the distributor/broker mentality.
2) The planners have to be very patient and optimistic in spreading awareness about the role of financial planning in one's life. This will embark in opening of a new chapter in the Indian industry as a whole.
3) There has to be a very pin pointed agenda of giving the right products to the investor which suits his needs. In this way the planner will be able to establish trust of the client.
4) The majority of the distributors/brokers are involved in financial planning process lacks knowledge of all the products that can be used as a tool to achieve a financial goal. A planner is required to project himself as good and formidable alternative for these existing distributors.
5) Proper marketing of financial planning through Newspapers, Television, Telephone, Emails, etc. should be done by the planners to inflict confidence among investors.

For Regulators and Mutual Funds

1) There should be an awareness drive through different channels of marketing for the investors to make them aware about the financial planning and its importance.
2) Checks and balances should become more stringent so as to save investors from the fraudulent and money minded distributors.
3) Mutual fund companies should be forced to open offices in almost every location across India so that their representatives are able to explain their products to planners and distributors which will be of immense help to them in doing the financial planning and providing services.
4) The agent – advisor norms by SEBI should be properly monitored.
5) Mutual Fund companies should pursue financial planners regularly and help them in spreading awareness about investing in right product that suits his need.
6) One of the most important things that have to be done by the government that there has to be some sort of arrangement in which mutual fund product should be attached to bank account and can be invested and redeemed through ATMs. Although, this practice is specific to certain schemes, but it has to be made mandatory for all schemes. The investors must be given options to even transfer their salaries to their mutual fund schemes.

For Investors

1) The investor has to make sure that the advisor or planner, with whom he is dealing with, is having minimum standard of education and certifications in dealing with these sophisticated products.
2) One cannot rely completely on his advisor to achieve his financial goals. The investor has to properly judge each and every fund that he has been exposed to.
3) The era of pass back has gone and one must try to find a good advisor rather than someone who is ready to pay back the commission.
4) There has to be clarity in one's financial goals and investor should not mingle up their long and short term investments.
5) There has to contacts with the investors among themselves so that they are able to assess the performance of their advisor or planner.

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