International Journal of Research in Finance and Management

P-ISSN: 2617-5754
E-ISSN: 2617-5762
IJRFM 2022; 5(1): 01-11
Received: 06-05-2021
Accepted: 11-06-2021

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Mutual fund schemes a study with special reference to retail investors

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Abstract
The Mutual Fund (MF) Industry had a compared annual growth rate of 18 percent over past 10 years. Despite the Global economic slowdown of 2010 -13, there has been a remarkable increase in mutual funds investment in India. Till now, lack of awareness about financial instruments and prevalence of low financial knowledge resulted in a lower inflow of investments as compared to that in other BRICK nations like China and Brazil. However, factors such as favorable demographics, rising income levels and ongoing government initiatives continue to make it one of the most attractive sectors in the financial services industry. In an attempt to curb black money in the economy, the Prime Minister announced the demonetization of Indian high value currency in November 2016. In the immediate future, with interest rate declining, it is reasonable to predict that debts funds will be drivers of the growth in the first half of 2017, while the effect of the goods and services tax will be felt in the second half.

Keywords: Investment, BRICK, black money, demonetization

Introduction

The mutual fund was introduced firstly introduced in Europe particularly in Great Britain in 19th century by setting up the first investment trust named Foreign and Colonial Investment Trust. The growth of the Mutual Fund Industry slackened due to the great depression and stock market crash in 1929. In the 1950s and 1960s, due to innovations in products and services, popularity of mutual funds increased. In 1940, the first International Stock Mutual Fund was introduced in United State. The first municipal stock mutual fund was emerged with tax exemption and first money market mutual funds were created. In the eighties and nineties the Mutual Fund Industry witnessed extensive growth and there were increase in the number of mutual fund schemes, assets and shareholders. The mutual fund schemes exceed bank deposit since 1996.

The British fund model recognized direct link with U.S. Securities markets for helping in finance for U.S. economy. One of the Scottish American Investment Trust invested in the economic perspective of United States through the American railroad bonds. The natures of all these funds were open-ended having redemption feature. They had approximately all the features of a modern mutual funds and therefore they are the privileged grand-parents of today's funds. Before these funds, all the investment companies were closed-ended companies. So, it may be stated that basic ideas of professional fund management and diversification, were pulled out by U.S.A from England Investment Companies. Open-Ended mutual funds became very admired because of their elite features. There were Open-Ended mutual funds in USA in 1929. The US financial market was ravaged due to the great depression of 1930, which also impacted Mutual Fund Industry. Then for protecting the interest of common investors, there was need for a strict regulations body for the mutual funds as well as for financial sectors. For protecting investors US government conceded various acts such as Securities Exchange Act 1934, Investment Companies Act 1940 and Securities Act 1933. For the keeping informed about the trends in mutual fund legislation a committee was established named National Committee of Investment Company.

Formation of Mutual Fund in India

The Indian Mutual Fund Industry began acting in 1963 with the arrangement of Unit Trust of India at the activity with the recommendation of Reserve Bank of India and Indian Government.

- First Phase: 1964-1987
- Second Phase: 1987-1993
- Third Stage: 1993-2003
- Fourth Phase: Since Feb. 2003

Structure of Mutual Funds

Mutual Funds have their organizational structure as per the guidelines of SEBI. Mutual fund is considered as a trust having Sponsors, Trustee, Custodian and AMC (Asset Management Company). Functionaries of mutual funds are:-

- Sponsors
- Trustees
- AMC (Asset Management Company)
- Custodian
- Fund Manager

Types of Mutual Funds

In the Investment markets there is wide variety of investors with different needs, objectives and risk tolerance capacity like a businessman wants capital appreciation from his funds preferring high risk. So, it is very difficult task for offering one fund to all the investors satisfying all the needs of the investors.

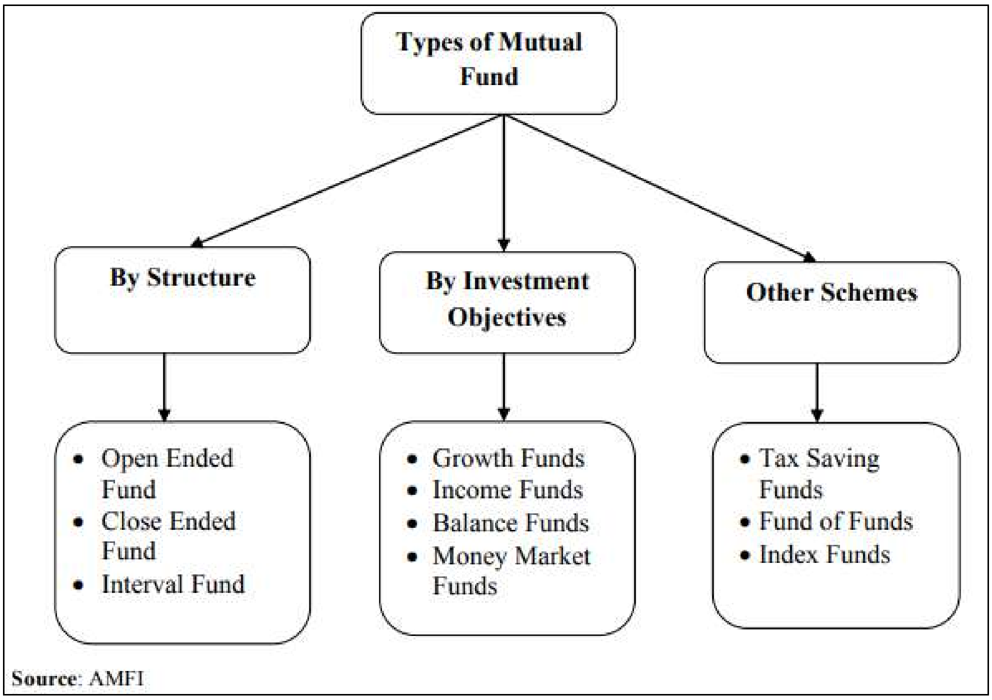

Fig 1: Types of Mutual Fund

The Game Changer for Mutual Fund Industry

Technology

Technology has now become an integral part of the Mutual Fund Industry and is used widely in each and every aspect from fund management to transaction processing and from customer servicing to distribution. With the increasing use of smart phones there lies a huge opportunity for mutual fund houses to leverage them for a successful Business to Consumer (B2C) model and pass on the benefit of commission to the end customer. Robo-advisors, artificial intelligence, block chain; cloud computing, big data and analytics are soon going to replace the traditional model. While the industry is already one of the fastest adopter of technology, Technology is only set to become a larger component of the overall framework in the next few years. Ease of transactions (e.g. e-KYC) for a first-time investor has been a significant upward trend in the last 5 years. The regulator continues to look for ways to enhance expansion and penetration (tie-up with e-wallets, e-commerce, distribution, etc.). However, the impact of these initiatives is concentrated in certain parts of the country. The industry will see robust growth in the next 2-3 years, driven by opportunities in the following areas:

- Improved distribution efficiencies have enhanced reach across the country as distributors can now provide ready analysis to customers on the field.
- Range of mobile and online apps for tracking and transacting end-to-end platforms have enabled seamless customer experience.
- Mutual Fund Utility (MFU) has allowed investors to place orders withmultiple AMCs and transfer funds seamlessly, all though a single window.
- E-KYC using AADHAR has proved to be a game changer for online investing; in the future, technology platforms and AADHAR will be leveraged for various government schemes.
- Increasing use of Robo-advisory has made it simpler for investors to make decisions.

Government Initiatives and Regulatory Push

- Demonetisation created a surge of inflows into structured investments such as mutual funds.
- Advisory regulations have allowed investors to get into advisory-only arrangements with financial advisors.
- With respect to the special commission for mutual funds, the distribution is below in 15 cities will increase penetration.
- SEBI has proposed allowing the sale of mutual funds

through leading ecommerce websites.
- Introduction of payments banks and small finance banks has improved financial inclusion.

Consolidation, Specialty Products and Alternative Investment Options
- Debt funds govern the Indian markets; however, with increasing investor education, equity funds have witnessed an increase in the past 2 years.
- Within Alternative Investment Funds (AIFs), Exchange-Traded Funds (ETFs) are likely to be one of the main products to drive significant growth, propelled by the deflationary impact to rates from the blow of demonetisation.
- Recently, SEBI has relaxed the norms for Real Estate Investment Trusts (REITs), allowing them to invest a larger portion of their funds (up to 20 percent from the current level of 10 percent) in assets under construction, along with proposed changes to facilitates easier entry for offshore fund managers.

Innovation in Distribution Models
The Mutual Fund Industry has been operating on the open architecture distribution model, with no tied agents.

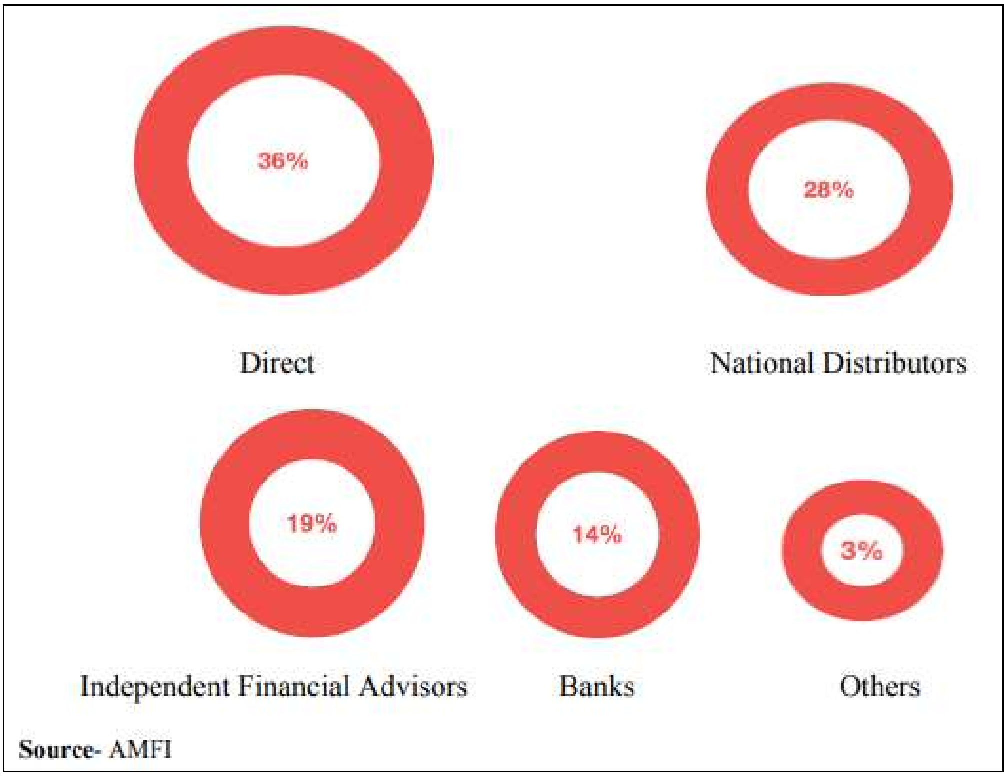

Fig 2: Share of AuM Sourced among Distributors

Review of literature
Debasish (2009) [6] explored the role of the fund mangers in pooling up the performance of mutual funds. The study showed that due to the emergence of liberalization and private participation the challenge to survive and retain confidence of the retail investors has been a prime concern for fund managers. The study examined the performance of selected Mutual Fund Schemes based on the risk- return relationship models. Total 23 Mutual Fund Schemes were analyzed on the basis of mean return, sharpe ratio, coefficient of determination and Jensen Alpha. The study found that Franklin Templeton and UTI were the best performers among the schemes and LIC, Birla Sun Life and HDFC schemes have failed to satisfy their investors in terms of returns which was in spite of taking higher risk.
Loomba (2011) [12] evaluated the growth and performance of the Indian Mutual Funds. The Franklin Templeton Large Cap Equity mutual funds have been studied for this study. The analysis has been done on the basis of various research techniques such as Mann Whitney‟s U-Test and Sharp ratio. It was found that the equity based open-ended mutual find schemes of Franklin Templeton provided relatively superior returns to the investors and the small investors are well-advised to analyze the return and risk parameters of the mutual funds, over longer period of time, before their investment decisions. Although mutual funds are instruments of diversified investments, a prudent choice between the many available mutual fund schemes will go a long way in generating wealth for the investors. Further, in times of high Stock Market volatility, mutual funds are the best source of investments with assured and adequate returns provided the selection of the mutual funds is in the right direction.
Divya (2012) [7] examined the performance of the Indian Mutual Fund Industry from last 2 decades of the century. The study has also examined the performance of the fund managers which helps the retail investor in identifying the skilled fund managers. It is found that the mutual fund managers have to do extra efforts for satisfying the retail investors as well as management. The study also confined that the performance evaluation of fund manager is essential to evaluate the mutual fund performance regularly.
Dhunna (2012) investigated the financial awareness of the retail investors regarding the mutual fund products. The

results of the study revealed that the retail investors still have low level of financial literacy and there is necessity of the different technological innovation tool to improve the level of financial literacy and mutual fund penetration. The study has also explained the role of different promotional tools such as news channel, internet, mobile phones, and ATM cards for upgrading the awareness level of retail investors.

Babu (2013) [3] focused on saving pattern of investors, investment avenues, awareness about various investments and preference towards mutual funds. The study analyzed that performance of mutual funds depends on the ability of fund managers to choose the right kind of securities with their superior knowledge of the market. Research and analysis experts engaged with mutual funds help and managers with details on market movements and probable trends so that they can instigate suitable strategies to improve the performance of the fund.

Lohana (2014) [11] explored the overview of Indian Mutual Fund Industry from the year 2009 to 2014. The study analyzed the importance of mutual funds for the retail investors in rapidly changing enviornment. The study revealed that in todays dynamic enviornment mutual fund is a safe investment vehicle which have gained huged populartiy among the retail investors. The study explored the dynamics of Indian Mutual Fund Industry with the regulatory changes.

Research Methodology

The Mutual Fund Industry in India has evolved over the years, growing and maturing with every development that is taking place. In the current scenario of uncertainty and volatility in the market the investors hesitates to invest their money in Mutual Fund Schemes as they perceive capital market as risky. So, in such conditions the role of financial planner and distributors is much important as they provide the suitable products to the investors as per their needs. It is the duty of advisors or the distributors to encourage the investor to purchase mutual fund products and help achieve his financial goals over a fixed period of time. So, in the challenging environment of Mutual Fund Industry the role of advisors and distributors to educate the investors and to increase the awareness level is most important task today.

Significance of the study

The present study shall explore the dynamics of Mutual Funds Industry in India and study how mutual funds are promoted and distributed by distributors and financial advisors. The present study shall recommend strategies for effective branding, positioning, promotion and distribution of Mutual Fund Schemes as long-term investment avenues. The present study shall be a serious endeavor to study, the hitherto unknown, challenges of promotion, distribution, branding and positioning of mutual funds.

Objectives of the study

1. To understand the demographic and psychographic profile of a retail Mutual Fund investor in India.
2. To study the reasons behind low levels of retail participation in Indian Mutual Fund Schemes.
3. To study the role of Distributors and Financial Advisors in promotion and distribution of Mutual Fund Schemes in India.
4. To recommending strategies for effective branding, positioning, promotion and distribution of Mutual Fund Schemes as long-term investment avenues.

Limitations of the study

There may be chances of error in the study as the study is based on survey of respondents. Respondents have been selected from Delhi and National Capital Region of India only. Respondents from other parts of the country could be value addition in present study and enhance the scope of study. Study population is limited to certain occupations only.

Conclusion

The level of financial awareness among the educated professional class is also very low and people are skeptical about thinking beyond traditional investment avenues Like Bank FDs, gold and property; hampering the spread and penetration of mutual funds in India. investment in mutual funds gets hindered as much of the population beyond the T-15 (Top 15) Cities struggles with the lack of formal documentary proof (such as PAN cards) required for KYC (Know Your Customer) norms. Beyond the top 15 cities majority of investors lack formal documentary proof like PAN card (to be able to participate investing in mutual funds) and are unaware about basic KYC norms hampering the growth and penetration of Mutual Fund Industry.

Suggestions

Awareness of mutual funds in Tier-II towns is comparatively far less than the Ten Tier-I cities. Thus, for Mutual Fund Industry to grow, proper financial literacy and awareness programs must be initiated to tap the hitherto untapped market in the hinterland and small towns of India. The Mutual Fund Industry must exploit the large number of bank branches and their vast network of ATMs machine by tying up with Banks and providing option to purchase mutual funds through ATMs.

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