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Historical Background and Growth Trends of Mutual Funds in India

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ABSTRACT

The main purpose of this paper is to present mutual funds historical background and growth trends in Indian mutual funds. The paper is purely based on secondary data collected from SEBI bulletins, mutual funds websites and previous research articles. The evolution of mutual fund industry in India is shows in phase wise developments from 1964 to till date. Growth trends in mutual funds industry in India is based on the gross mobilization from 2001-02 to 2016-17, scheme wise fund mobilization from 2002-03 to 2016-17, scheme wise resource mobilization from 2011-12 to 2016-17 and the paper also discusses in a nutshell the differences between mutal funds and banks. The analysis shows that The Indian Mutual Fund Industry has recorded Rs. 13,460 billion Assets under Management (AUM) by December 2015 and is reporting a steady growth till date, total gross mobilization in terms of crores has increased from Rs.1,64,523 in 2011-02 to Rs.1,76,15,549, net scheme wise resource mobilization has increased from (Rs 22,024) mn in 2011-12 to Rs.3,43.049 mn in 2016-17.

1. Introduction

The economic growth of a country is linked to the growth of capital market. Capital market growth depends on the savings of the country. In India, notwithstanding a high rate of savings by the community, the capital market is not able to grow fast because the common man has not acquired the necessary knowledge and expertise to select appropriate avenues of investment which will serve his needs. In this context, mutual funds, one of the main constituents of the capital market have emerged as an important segment in the Indian financial sector.

Over the past twenty or so years, mutual funds have become an increasingly popular investment vehicle in Indian financial sector. Mutual Fund is an instrument of investing money. Mutual fund investing has enjoyed phenomenal growth in recent years. Nowadays, bank rates have fallen and keeping large amounts of money in bank is not a wise option, as in real terms the value of money decreases over a period. One of the options is to invest the money in stock market. But a common investor is not informed and competent enough to understand the intricacies of stock market. This is where mutual funds come to the rescue.

Mutual Funds have been defined by various authors in different ways. According to James L. Pierce, (1996), "it is a non-depository or non-banking financial intermediary, which acts as an important vehicle for bringing wealth holders and deficit units together indirectly". Weston J. Fred and Brigham.Eugene.F, (1979), in their book *Essentials of Managerial Finance,* state that "Mutual Funds are corporations which accept dollars to buy stocks, long-term bonds, and short-term debt instruments issued by business or Government units, these corporations' pool funds and thus reduce risk by diversification". As per the Mutual Funds Fact Book (published by the Investment Company Institute of the US), (2004), "A Mutual Fund is a Financial Service Organization that receives money from shareholders, invests it, earn returns on it, attempts to make it grow and agrees to pay the shareholders cash on demand for the current value of his investment". Encyclopedia Britannica defines a mutual fund as: "Mutual Fund – also called Unit Trust or Open-Ended Trust – a company that invests the fund of its subscribers in diversified securities and in turn issues units representing shares in those holdings. They make continuous offerings of new shares at net asset value and redeem the shares on demand at net asset value determined daily by the market value of the securities they hold". Frank Reilly (1989) defines, "Mutual Funds as financial intermediaries, which bring a wide variety of securities within the reach of the most modest of investors". In the words of Joel Ross (1998), Mutual Funds is "taking the pool of money and investing it in the securities of a wide range of companies, managers of mutual funds decide when to buy, sell or hold in order to achieve the objective of the funds". The VNR Dictionary (1981) of Business and Finance defines mutual funds as "an investment fund that pools the invested funds of others and invests these funds on their behalf, usually in a specific kind of investment, such as money market instruments, municipal bonds or common stock". SEBI (Mutual Funds) Regulations 1993, defines a Mutual Fund as, "Mutual Fund means a fund established in the form of a Trust by a sponsor to raise money by the Trustee through the sale of units to the public under one or more schemes for investing in securities in according with these regulations". In India, the investment trusts are established according to the provisions of the Indian Companies Act.

2. Objectives of the Study

1. To present the historical development of mutual funds industry in India.
2. To analyze the growth trends of mutual funds industry in India.

3. Research Methodology

The date for the study has been collected basically from secondary information sources. The secondary sources include website, books, journals, SEBI bulltions and AMFI. The data has analyzed, and interpretations are done to draw conclusion.

4. Early History of Mutual Funds

Today the choice of possible investment opportunities is so varied that it can become overwhelming to a prospective investor. There are shares, bonds, commodities, securities, property – to mention just a few. Mutual funds have become a popular choice among investors. This is because an investor can invest in many different assets with just one investment vehicle. This is done by pooling his funds with other investors to make one large investment.

In America the first modern mutual fund, the Massachusetts Investors Trust, was started in 1924. Some people think that mutual funds started in America, but it may surprise them to know that the idea of a group of investors pooling their money together goes back even further. In fact, evidence of this type of investing can be traced back to Europe, dating back to the 1800s. King William 1 of the Netherlands was credited with starting such a fund in 1822 and yet some even say that the King got the idea from a Dutch merchant named Adriaan van Ketwich whose investment trust was created in 1774. Similar pooled fund investment vehicles were started in Switzerland in mid 1849, followed by Scotland in the 1880s. Great Britain and France adopted this style of investing and the idea made its way to the US in the 1890s.

The first group in the United States to invest in this way were the staff and faculty at Harvard University in 1893. It was their group investment that went on to become the first mutual fund in US history. The fund, which had started with 200 investors and $50,000 dollars, grew in value to nearly $400,000 in only one year. As you can see this first US mutual fund was unbelievably successful.

Today there are approximately 10,000 different mutual funds available in the United States. This represents approximately 83 million investors and makes mutual funds one of the most popular forms of investing in the US. The rules of investing in mutual funds changed significantly after the great stock market crash of 1929. The Securities & Exchange Commission (SEC) was born, and two key pieces of legislation, the Securities Act of 1933 and the Securities Exchange Act of 1934 were passed by Congress. The SEC helped create the Companies Act of 1940 and now require companies to file their financial information and provide disclosure to investors in the form of a prospectus. This means that investors are now able to see which companies healthy, and which companies they are should avoid. In the US the creation of the SEC did wonders for consumer confidence, and by the 1960’s the mutual fund market was showing massive growth with about 270 different mutual funds. The bear market of 1969 caused a cooling off period but growth in the industry later resumed.

The history of mutual funds in Australia and New Zealand is more recent. In this part of the world they are more commonly known as managed funds or unit trusts. Australia has had managed funds since the second world war whereas New Zealand’s Unit Trust Act of 1960 signified a change of heart by the Capital Issues Committee who until then were blocking attempts to introduce the concept of this style of investment.

It was during the 1960's that there was a tremendous growth because people were investing in much riskier funds, which obviously earned the most money when they were successful. There were over 100 funds that were placing their money into technology stocks and other risky ventures, but investors were satisfied because they were making money. At the end of this short era, though, in around 1969, people began to get dissatisfied because their money wasn't doing so well anymore, and people were afraid that they'd never get their money back. The market was suffering tremendously with unemployment, sky-high inflation rates, and investors took their money out of the mutual funds. Then, in the 1970's, a new type of mutual fund emerged that was called a 'no load' fund. This type of mutual fund had no sales commission and the money that investors earned went straight to them, and not to salespeople or managers.

With new taxation rules positively affecting many unit trusts in New Zealand this type of investment vehicle will only become more popular. The Portfolio Investment Entity (PIE) regime which started on 1 October 2007 will mean a more effective taxation rate, particularly for those in the highest tax bracket. It will even make it more tax effective than investing directly into any of the asset classes. This is good news for investors in managed funds in New Zealand.

Mutual fund investing has had its ups and downs but remains a great way to diversify, particularly for investors with smaller sums of money. It is all a matter of choosing your fund wisely considering your time horizon, risk tolerance and keeping your investment goals in mind. Mutual funds will around for many more years to come.

5. Mutual Fund Industry in India

The end of millennium marks 44 years of existence of mutual funds in this country. The ride through these 44 years is not been smooth. Investor opinion is still divided. While some are for mutual funds others are against it.

The origin of mutual fund industry in India is with the introduction of the concept of mutual fund by UTI in the year 1963. Though the growth was slow, but it accelerated from the year 1987 when non-UTI players entered the industry. In the past decade, Indian mutual fund industry had seen dramatic improvements, both quality wise as well as quantity wise. Before, the monopoly of the market had seen an ending phase; the Assets Under Management (AUM) was Rs. 67bn. The private sector entry to the fund family raised the AUM to Rs. 47000 Crores in March 1993 and till April 2008 it reached the height of 568,156 Crores.

6. The Evolution

The formation of Unit Trust of India marked the evolution of the Indian mutual fund industry in the year 1963. The primary objective at that time was to attract the small investors and it was made possible through the collective efforts of the Government of India and the Reserve Bank of India. The history of mutual fund industry in India can be better understood divided into following phases:

Phase 1: Establishment and Growth of Unit Trust of India - 1964-87: Unit Trust of India enjoyed complete monopoly when it was established in the year 1963 by an act of Parliament. UTI was set up by the Reserve Bank of India and it continued to operate under the regulatory control of the RBI until the two were de-linked in 1978 and the entire control was transferred in the hands of Industrial Development Bank of India (IDBI). UTI launched its first scheme in 1964, named as Unit Scheme 1964 (US-64), which attracted the largest number of investors in any single investment scheme over the years.

UTI launched more innovative schemes in 1970s and 80s to suit the needs of different investors. It launched ULIP in 1971, six more schemes between 1981- 84, Children's Gift Growth Fund and India Fund (India's first offshore fund) in 1986, Mastershare (India's first equity diversified scheme) in 1987 and Monthly Income Schemes (offering assured returns) during 1990s. By the end of 1987, UTI's assets under management grew ten times to Rs 6700 Crores.

Phase II. Entry of Public Sector Funds - 1987-1993: The Indian mutual fund industry witnessed a few public-sector players entering the market in the year 1987. In November 1987, SBI Mutual Fund from the State Bank of India became the first non-UTI mutual fund in India. SBI Mutual Fund was later followed by Canbank Mutual Fund, LIC Mutual Fund, Indian Bank Mutual Fund, Bank of India Mutual Fund, GIC Mutual Fund and PNB Mutual Fund. By 1993, the assets under management of the industry increased seven times to Rs. 47,004 Crores. However, UTI remained to be the leader with about 80% market share.

Table 1: Assets under Management of the Industry

1992-93	Amount Mobilised	Assets Under Management	Mobilisation as % of gross Domestic Savings
UTI	11,057	38,247	5.2%
Public Sector	1,964	8,757	0.9%
Total	13,021	47,004	6.1%

Source: www.appuonline.com/mf/knowledge/industry.html

Phase III. Emergence of Private Sector Funds - 1993-96: The permission given to private sector funds including foreign fund management companies (most of them entering through joint ventures with Indian promoters) to enter the mutual fund industry in 1993, provided a wide range of choice to investors and more competition in the industry. Private funds introduced innovative products, investment techniques and investor-servicing technology. By 1994-95, about 11 private sector funds had launched their schemes.

Phase IV. Growth and SEBI Regulation - 1996-2004: The mutual fund industry witnessed robust growth and stricter regulation from the SEBI after the year 1996. The mobilisation of funds and the number of players operating in the industry reached new heights as investors started showing more interest in mutual funds.

Investors' interests were safeguarded by SEBI and the Government offered tax benefits to the investors to encourage them. SEBI (Mutual Funds) Regulations, 1996 was introduced by SEBI that set uniform standards for all mutual funds in India. The Union Budget in 1999 exempted all dividend incomes in the hands of investors from income tax. Various Investor Awareness Programmes were launched during this phase, both by SEBI and AMFI, with an objective to educate investors and make them informed about the mutual fund industry.

Table 2: Gross Fund Mobilisation (Rs. Crores)

From	To	UTI	Public Sector	Private Sector	Total
01-April-98	**31-March-99**	11,679	1,732	7,966	**21,377**
01-April-99	**31-March-00**	13,536	4,039	42,173	**59,748**
01-April-00	**31-March-01**	12,413	6,192	74,352	**92,957**
01-April-01	**31-March-02**	4,643	13,613	1,46,267	**1,64,523**
01-April-02	**31-Jan-03**	5,505	22,923	2,20,551	**2,48,979**
01-Feb.-03	**31-March-03**	*	7,259*	58,435	**65,694**
01-April-03	**31-March-04**	-	68,558	5,21,632	**5,90,190**
01-April-04	**31-March-05**	-	1,03,246	7,36,416	**8,39,662**
01-April-05	**31-March-06**	-	1,83,446	9,14,712	**10,98,158**

Source: www.appuonline.com/mf/knowledge/industry.html

Table 3: Assets under Management (Rs. Crores)

As On	UTI	Public Sector	Private Sector	Total
31-March-99	53,320	8,292	6,860	**68,472**

Source: www.appuonline.com/mf/knowledge/industry.html

In February 2003, the UTI Act was repealed and UTI was stripped of its Special legal status as a trust formed by an Act of Parliament. The primary objective behind this was to bring all mutual fund players on the same level. UTI was re-organised into two parts: 1. The Specified Undertaking, 2. The UTI Mutual Fund.

Presently Unit Trust of India operates under the name of UTI Mutual Fund and its past schemes (like US-64, Assured Return Schemes) are being gradually wound up. However, UTI Mutual Fund is still the largest player in the industry. In 1999, there was a significant growth in mobilisation of funds from investors and assets under management which is supported by the data presented in **Table 2 & 3**.

Phase V. Growth and Consolidation - 2004 Onwards: The industry has also witnessed several mergers and acquisitions recently, examples of which are acquisition of schemes of Alliance Mutual Fund by Birla Sun Life, Sun F&C Mutual Fund and PNB Mutual Fund by Principal Mutual Fund. Simultaneously, more international mutual fund players have entered India like Fidelity, Franklin Templeton Mutual Fund etc. There were 34 funds as at the end of April 2008. This is a continuing phase of growth of the industry through consolidation and entry of new international and private sector players. The average assets under management (AAUM) of the 34-member mutual fund industry rose in the month of April 2008. As per the data released by Association of Mutual Funds in India (AMFI), the asset base of the industry has grown by 7.33% to Rs. 567601.98 Crores.

7. Current Status of Indian Mutual Fund Industry

The Indian Mutual Fund Industry has recorded Rs. 13,460 billion Assets under Management (AUM) by December 2015 and is reporting a steady growth till date. Initially, corporates had been the main contributor to AUM but soon, the retail segment proved to be the segment that contributed the most to AUM growth in India. GST rate of 18% applicable for all financial services effective July 1, 2017. *(Source:https://www.bankbazaar.com/mutual-fund/mutual-fund-industry-in-india.html)*

8. Changes to Mutual Fund Industry – SEBI Initiatives

SEBI has dictated various initiatives and directives to regulate the mutual fund industry and to protect investor interests. These can be classified into three segments –

8.1 Protecting investor interests – SEBI has introduced various directives to protect investor interests. These are as follows:

a) Promote transparency by introducing higher disclosures by an Asset Management Company (AMC).
b) Prevent mis-selling by making changes to the commission structure.
c) Merging me-too schemes and not giving approval to NFO issuances that are in non-compliance to this rule.
d) Introducing “risk meter” infographics in all mutual fund product brochures in a comprehensive and easily understandable format.

8.2 Increasing reach and lowering costs – SEBI offers the following solutions for increasing reach and lowering costs:

a) Launching the MF Utility Portal that would enable investors to trade through a Common Account Number.
b) Areas other than T15 will have differentiated TER for encouraging the sale of direct plans.
c) Issuing consolidated account statements.

8.3 Safeguarding the health of mutual fund industry – In order to safeguard the health of the Indian Mutual Fund Industry, the following regulations are laid down by SEBI:

a) Making it mandatory for AMCs to have a capital base of Rs. 500 Million by the year 2017, from its current value of Rs. 100 Million.
b) Proposing the analysis of compensation details for assessing fixed costs of AMCs.
c) Conducting stress tests on a regular basis.

(Source:https://www.bankbazaar.com/mutual-fund/mutual-fund-industry-in-india.html)

9. Growth Trends of Mutual Funds in India

With the liberalization, the Indian industrial sector wants cheaper funds to face global competition. Banking intermediaries today cannot afford to reduce their margins. But the household sector demands better returns. All these factors have spawned the success of a new intermediary called mutual funds. The mutual fund industry in India, which is a little over three decades old, has undergone a change since the introduction of mutual funds regulation in 1993. It was in this year that private and foreign mutual funds started participating in the industry. Today, the industry consists of the Unit Trust of India, mutual funds sponsored by public sector banks and insurance corporations and that have been set up by private and foreign funds.

The entry of private sector mutual funds has imparted competitive efficiency to the industry, helped investors to choose from funds with different maturity periods and offered different risk-return trade-offs. Table 4 shows the amount mobilized by the different mutual funds for the period 2001-02 to 2016-17 and Table 5 shows the Scheme-Wise Fund Mobilization for the period 2002-03 to 2016-17.

Table 4: Gross Mobilization by Mutual Funds *(Rs. In Crores)*

Year	UTI	Public Sector Mutual Funds	Private Sector Mutual Funds	Total
2001-02	4643	12082	147798	164523
2002-03	7096	23515	284095	314706
2003-04	23992	31548	534649	590190
2004-05	46656	56589	736463	839708
2005-06	73127	110319	914703	1098149
2006-07	142280	196340	1599873	1938493
2007-08	3,37,498	3,46,126	37,80,753	44,64,376
2008-09	4,23,131	7,10,472	42,92,751	54,26,354
2009-10	8,81,851	14,38,688	76,98,483	1,00,19,023
2010-11	7,83,858	11,52,733	69,22,924	88,59,515
2011-12	5,22,453	6,13,482	56,83,744	68,19,679
2012-13	N/A	12,79,996	59,49,889	72,67,885
2013-14	N/A	17,18,703	80,49,397	97,68,101
2014-15	N/A	19,42,297	91,43,962	1,10,86,260

2015-16	N/A	26,39,279	1,11,26,277	1,37,65,555
2016-17	N/A	33,67,612	1,42,47,937	1,76,15,549

Source: SEBI Bulletin. *N/A – Not Available*

Table 5: Scheme-Wise Fund Mobilization (Rs. mn) (**Source: SEBI Bulletin)**

Scheme	**2002-03**			**2003-04**			**2004-05**		
	Sale	**Purchase**	**Net**	**Sale**	**Purchase**	**Net**	**Sale**	**Purchase**	**Net**
Open-ended	313160	276737	36423	5874799	5414467	460332	822004	825977	-3972
Close-ended	554	1012	-458	27099	19347	7752	17704	11531	6173

Scheme	**2005-06**			**2006-07**			**2007-08**		
	Sale	**Purchase**	**Net**	**Sale**	**Purchase**	**Net**	**Sale**	**Purchase**	**Net**
Open-ended	1057118	1031334	25783	1800158	1776258	23900	43,37,042	42,03,588	1,33,454
Close-ended	41032	14036	26996	138335	68250	70085	1,27,335	1,06,987	20,348

Scheme	**2008-09**			**2009-10**			**2010-11**		
	Sale	**Purchase**	**Net**	**Sale**	**Purchase**	**Net**	**Sale**	**Purchase**	**Net**
Open-ended	52,61,429	52,33,301	28,128	99,76,363	98,69,736	1,06,627	86,65,727	87,88,945	-1,23,218
Close-ended	1,11,008	1,45,198	-34,191	25,551	61,683	-36,132	1,28,274	57,216	71,658

Scheme	**2011-12**			**2012-13**			**2013-14**		
	Sale	**Purchase**	**Net**	**Sale**	**Purchase**	**Net**	**Sale**	**Purchase**	**Net**
Open-ended	66,70,526	66,85,523	-14,977	71,87,928	70,84,206	1,03,723	96,17,980	96,07,526	-10,454
Close-ended	1,35,513	1,32,072	3,441	72,047	98,586	-26,539	84,626	1,44,368	59,742

Scheme	**2014-15**			**2015-16**			**2016-17**		
	Sale	**Purchase**	**Net**	**Sale**	**Purchase**	**Net**	**Sale**	**Purchase**	**Net**
Open-ended	1,08,70,940	1,10,26,222	1.55.282	1,35,86,790	1,37,21,139	1,34,607	1,72,29,415	1,75,87,221	3,57,805
Close-ended	1,05,075	57,545	-47,529	42,455	43,132	677	39,080	28,029	-11,051

Table 6: Scheme-Wise Resource Mobilization by Mutual Fund (Rs. mn)

Scheme	**2011-12**			**2012-13**		
	Sale	**Purchase**	**Net**	**Sale**	**Purchase**	**Net**
A. Income/Debt Oriented Schemes (i+ii+iii+iv)	**67,54,113**	**67,79,766**	**-25,653**	**72,13,578**	**71,23,396**	**90,183**
i. Liquid/Money Market	59,46,498	59,53,603	-7,104	63,65,420	63,62,194	3.226
ii. Gilt	4,050	4,070	-20	12,886	8,910	3,975
iii. Debt (other than assure return)	8,03,565	8,22,094	-18,529	8,35,273	7,52,292	82,981
iv. Debt (assured return)	0	0	0	0	0	0
v. Infrastructure Development	0	0	0	0	0	0
B. Growth/Equity Oriented Schemes (i+ii)	**50,619**	**50,498**	**121**	**43,364**	**57,951**	**-14,587**
i. ELSS	2,698	2,841	-143	2,641	**4,282**	-1,641
ii. Other	47,921	47,657	264	40,723	53,669	-12,946
C. Balanced Schemes	**5,027**	**4,645**	**382**	**5,205**	4,989	**216**
D. Exchange Traded Fund (i+ii)	**8,563**	**5,540**	**3,024**	**5,052**	**3,850**	**1,202**
i. Gold ETF	5,265	1,619	3,646	2,767	1,353	1,414
ii. Other ETFs	3,298	3,921	-623	2,285	2,497	-212
E. Fund of Funds Investing Overseas	**1,356**	**1,254**	**102**	**686**	1,160	**-474**
Total (A+B+C+D+E)	**68,19,679**	**68,41,702**	**-22,024**	**72,67,885**	**71,91,346**	**76,539**

Scheme	**2013-14**			**2014-15**		
	Sale	**Purchase**	**Net**	**Sale**	**Purchase**	**Net**
A. Income/Debt Oriented Schemes (i+ii+iii+iv)	**96,46,422**	**97,09,762**	**63,340**	**1,08,89,532**	**1,09,12,088**	**22,556**
i. Liquid/Money Market	90,74,448	90,98,547	24,098	1,03,95,484	1,04,05,265	9,781
ii. Gilt	11,785	9,917	-1,868	5,421	13,133	7,711
iii. Debt (other than assure return)	5,60,189	6,00,736	40,547	4,88,627	4,93,502	4,876
iv. Debt (assured return)	0	0	0	0	0	0
v. Infrastructure Development	0	563	563	0	188	188
B. Growth/Equity Oriented Schemes (i+ii)	**55,362**	**46,093**	**-9,269**	**77,142**	**1,48,171**	**71,030**
i. ELSS	4,303	2,661	-1,642	5,434	**8,343**	2,908
ii. Other	51,059	43,432	-7,627	71,708	1,39,829	68,121

C. Balanced Schemes	**5,421**	**3,435**	**-1,986**	**5,591**	15,417	**9,826**
D. Exchange Traded Fund (i+ii)	**6,273**	**6,870**	**596**	**9,198**	**9,974**	**776**
i. Gold ETF	2,697	403	-2,294	1,593	**118**	-1,475
ii. Other ETFs	3,576	6,466	2,890	7,605	9,856	2,251
E. Fund of Funds Investing Overseas	**840**	**1,941**	**1,101**	**1,509**	609	**-900**
Total (A+B+C+D+E)	**97,14,318**	**97,68,101**	**53,783**	**1,09,82,972**	**1,10,86,260**	**1,03,288**

Scheme	2015-16			2016-17		
	Sale	Purchase	Net	Sale	Purchase	Net
A. Income/Debt Oriented Schemes (i+ii+iii+iv)	**1,35,18,545**	**1,35,51,553**	**33,008**	**1,70,90,456**	**1,73,03,610**	**2,13,154**
i. Liquid/Money Market	1,29,92,930	1,30,10,039	17,108	1,63,27,427	1,64,23,253	95,826
ii. Gilt	12,399	12,158	759	15,313	12,007	-3,305
iii. Debt (other than assure return)	5,13,215	5,27,953	147,738	7,47,717	8,68,350	1,20,633
iv. Debt (assured return)	0	0	0	0	0	0
v. Infrastructure Development	0	403	403	0	0	0
B. Growth/Equity Oriented Schemes (i+ii)	**91,249**	**1,65,276**	**74,026**	**1,49,183**	**2,19,550**	**70,367**
i. ELSS	3,566	9,981	6,415	4,527	**14,624**	10,097
ii. Other	87,683	1,55,295	57,612	1,44,656	2,04,926	60,270
C. Balanced Schemes	**8,744**	**28,487**	**19,742**	**14,011**	50,621	**36,609**
D. Exchange Traded Fund (i+ii)	**12,145**	**19,966**	**7,821**	**18,143**	**41,421**	**23,278**
i. Gold ETF	931	28	-903	862	**86**	-775
ii. Other ETFs	11,214	19,938	8,724	17,282	41,335	24,054
E. Fund of Funds Investing Overseas	**691**	**274**	**-418**	**707**	347	**-360**
Total (A+B+C+D+E)	**1,26,31,375**	**1,37,65,555**	**1,34,181**	**1,72,72,500**	**1,76,15,549**	**3,43,049**

Source: SEBI Bulletin.

Today, there are more than 2000 schemes offered by nearly 46 mutual fund players. The primary new issue market continues to be in the doldrums with investors shunning share offerings, but mutual funds have become the flavor of the season. More and more small investors are now opting for safer investment avenues like mutual funds, which are now giving steady and good returns.

The comparative advantage of mutual fund acceptability is presented in Table 7. There is little doubt that the performance of mutual funds schemes is equally good in comparison to bank. An investor who maintains a large balance in savings account losses money when inflation is considered. The investor receives interest only in the minimum balance after the 10th of every month, while in the case of mutual funds; interest is credited from day one. As investor begin realising the importance of real returns, more and more banks might lose their depositors.

After growing slowly for most of the time since its birth four decades ago, the industry slowly but steadily began to see a period of significant growth during the last decade that is between 1993 and 2017. No doubt post 1993, the markets saw a flurry of innovative schemes catering to different needs of investors, viz., tax saving schemes, balanced schemes, debt schemes, money market schemes, index-based funds, sector-specific funds, gold funds, serial plans etc. They started offering different investment horizons to suit investors, both short-term as well as long-term financial needs, although industry still faced some bottlenecks.

Table 7: Banks Vs Mutual Funds in a Nutshell

	Banks	Mutual Funds
Returns	Low	Better
Administrative	High	Low
Risk	Low	Moderate
Safety	Comparatively High	High
Liquidity	At a cost	Better
Investment option	Less	More
Network	High penetration	Low but improving
Quality of assets	Not transparent	Transparent
Capital Appreciation	Nil	High
Interest Calculation	Minimum balance between 10th and 30th of every month	Every Day
Guarantee	Maximum Rs.1 lakh on deposits	None

The following are the factors that have attributed to the spurt in the growth of the industry:

a) The industry is growing due to the booming stock market over the last three years.

b) The innovative schemes launched by mutual fund houses have given investors the option to choose funds, which suit their investment needs. These new innovative funds have helped galvanize the industry's growth.
c) The consolidation in the industry has begun. Many big international fund houses have entered the market. This will certainly help improve the growth levels of the industry.
d) The technology wave in the mutual fund industry widens its reach, offers flexibility and convenience to investors, which reduces the distribution costs. These new funds are more customized and reach out to the growing youth and net-savvy population of India.
e) Presently, mutual funds players are slowly realizing the potential of middle class cities of India. Increased penetration is helping the industry improve its assets under management.
f) Tax benefits extended to the mutual fund investors investing in equity mutual fund scheme too have acted as a catalyst for the growth of the industry.

g) In addition to this, the following facts are also associated with the growth of mutual funds in India:
h) 100% growth in the last 6 years.
i) Number of foreign AMC's are in the queue to enter the Indian markets like US based, Fidelity Investments, with over US $1 trillion assets under management worldwide.
j) Our savings rate is over 23%, highest in the world. Only channelising these savings in mutual funds sector, is required.
k) We have approximately 34 mutual funds which are much less than US, having more than 800. There is big scope for expansion.
l) 'B' and 'C' class cities are growing rapidly. Today most of the mutual funds are concentrating on the 'A' class cities. Soon they will find scope in the growing cities.
m) Mutual fund can penetrate rurals like the Indian insurance industry with simple and limited products.
n) SEBI allowing the MF's to launch commodity mutual funds.
o) Emphasis on better corporate governance.
p) Trying to curb the late trading practices.

Mutual funds are the intermediaries in the investment business which indirectly connect the public and the corporate sector. So, based on this, they are the powerful engines and catalytic agents for resource mobilization from the common investors to the corporate sector. In this context, they are playing a vital role and are attracting more and more investors with their better performance.

The fund attributes as potential determinants of fund performance are size, age, fees, management structure, management tenure, investment portfolio, etc. In addition, certain country characteristics also affect mutual fund performance like economic development, financial development, and quality of legal institutions. The performance of Mutual funds is influenced by the performance of the stock market as well as the economy. Equity Funds are influenced to a large extent by the stock market. The stock market in turn is influenced by the performance of the companies as well as the economy. The performance of the sector funds depends to a large extent on the companies within that sector. Bond-funds are influenced by interest rates and credit quality. As interest rates rise, bond prices fall, and vice versa. Similarly, bond funds with higher credit ratings are less influenced by the changes in the economy

overall the fund industry has achieved tremendous success which is because, it has done more than any other financial services industry to offer investors solid products tailored to meet real financial needs and marketed those products responsibly. But it cannot be ignored that rapid changes and market pressures are challenging. It cannot be afforded to remain "pigeonholed" by outdated thinking or antiquated business practices. They must cater to the changing preferences of the investors that are dynamic. If the long-term health of the industry and investor protection is maintained, the record.

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