

Role of Mutual Fund in Economic Development of India

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A mutual fund is a financial intermediary in capital market that pools collective investments in form of units from retail and corporate investors and maintain a portfolio of various schemes which invest those collective investments in equity and debt instruments on behalf of these investors. Mutual fund is expert entity which helps an investor invest in equity and debt instruments indirectly rather than taking risk of investing money directly in these instruments. An ordinary investor has no expertise or knowledge to invest money directly into equity market in India and most of the times investors lose their money due to wrong selection of equity shares, or bonds. Hence, mutual funds as intermediary provide expertise of portfolio management actively and diversify risk by spreading investments from all investors in various equity shares and debt instruments. This helps investors earn good returns at low risk compared to returns at high risk if investors invest on their own directly in capital market.

A mutual fund is a collective reservoir or pool of funds which is managed by a qualified and expert Fund Manager. It is a trust that takes funds from a number of investors who have a common investment goal and invests those funds in equities, bonds, money market instruments and other securities. The income generated from this combined portfolio is distributed proportionately amongst the investors after subtracting relevant expenses and levies, by calculating a scheme's 'Net Asset Value' or NAV. Simply placed, the money pooled in by a large number of investors are allotted in units by a mutual fund scheme. This pooled money invested in equity or bonds or short-term securities shall grow or go down depending upon the performance of these investments. This shall get reflected in the value of NAV. Mutual funds are perfect for investors who either lack large sums for investment, or for those who neither have the knowledge nor the time to research the market, yet want to grow their wealth. In return, the fund house charges a small fee for their professional expertise which is subtracted from the investment. The fees charged by mutual funds are restricted to certain limits stated by the Securities and Exchange Board of India (SEBI). During the past few years mutual funds have achieved a favoured status when investors have been investing regularly in equity/balanced schemes through them. The Indian mutual fund industry in comprising of government enacted mutual fund (UTI) public sector mutual funds and private sector mutual funds. Judging their suitability upon the presence of a large chunk of small and marginal investors with the same ability and willingness to enter the capital market through mutual funds, profit management, diversification, convenient administration, return potential, user costs, liquidity transparency, flexibility and choice of schemes and tax benefits efficient regulation all to their advantage.

The main players in the financial market can be classified into four categories both individual and institutional, companies, financial institution, both domestic, international and which act as borrowers and lenders and also regulate the markets. The driving force behind financial flows into developing countries and elsewhere are institutional investors which emerged in the late 1980 and early 1990s with the growing trend towards the institutionalization of saving in industrial countries (an origin of a majority of funds) investors now dominate the global financial world especially capital markets in US for instance they are estimated to account for more than 49 percent of US equities. After 40 years, mutual funds have become an important and dynamic sector in India's capital market. The industry has become one of the fastest growing sectors in the country's capital and financial markets with an average growth rate of 20% over the past 5 years as Brucellosis of Moody's identities. Mutual funds offer some benefits to investors. They offer instantaneous liquidity, they float deferent schemes, a variety of investment objectives creating an opportunity among investors to choose the scheme on the basis of their varied objectives and requirement. Unlike other investment they offer assured allotment to all the investors the extent of amount subscribed by them reducing investor's time. They also provide tax incentives and benefits too. Since their creation 38 years ago, as an institution which was conceived & remains the one of channelizing agency for savings of the small investors into industrial development. It has become a household name, providing a safe avenue for investment in a wide variety of funds and attractive return. They offer a plethora of schemes and serve broadly all type of investors. There are funds and investment exclusively for the young old small and large investors. With such a diverse spectrum of schemes available to the investors, mutual funds are continuously innovating and attempting to be one step ahead of competition especially by employing a technique called assets allocation. The popularity of mutual funds has soared so have their diversity and complexity. Despite their many advantages, The entry of new players into the industry specially as from early 1990s has encouraged competition among the various mutual funds, thus the existing are expected to perform better not only in terms of better return but also better services. Thus in view of the increasing significance of mutual funds in the contest of Indian economy, it is becoming much necessary to infer the perception of household savers of India and the innovative products.

Objectives and Methodology

The basic objective of this study is to review the development in investment patterns of mutual funds industry in terms of various innovative products and investment patterns,

and also assess the investor's attitudes with regard to their preferences for mutual fund schemes. The study is based upon both secondary data and primary data. For the purpose of reviewing launch of innovative patterns and products among the public and private mutual funds, secondary source like periodicals (financial dailies, magazines and journals were used.) But assessing investor's attitudes preferences, a questionnaire having 17 questions was distributed among dwelling investors from both Gujarat and Rajasthan states. The statistical tools used are averages and mean standard deviation and percentages.

Investor's Attitudes

Attempt has been made to assess the opinions of 80 (eighty) selected investors in the industry and tastes and preferences towards the various aspects of mutual funds. A specific attempt has been made to assess the factors that influence them to choose various schemes of funds. The data for this purpose was collected through structured questionnaire and personal interviews and schedule with respondents. A majority of the respondents represented working class investors and most of them either agents of various schemes or employees in executive positions, whose ages ranged between 23-45 years. The income category was Rs. 50,000-2.5 lakh per annum. All respondents belong to the small family i.e. between 2-8 members.

Table 1: Investors preference on mutual fund schemes

Type of fund	No. of respondents	% of total
<u>Nature of ownership</u>		
1. Public sector sponsored	16	20
2. Private sector mutual funds	52	65
3. Foreign sponsored	12	15
Total	80	100
<u>Factors considered in selecting a scheme /fund</u>		
1. Safety of capital invested	10	12.5
2. Capital appreciation	30	37.5
3. Regular & stable income	15	18.75
4. Income +capital appreciations	15	18.75
5. Liquidity	7	8.75
6. Future financial security	3	3.75
Total	80	100.00
<u>Factors influencing investing in particular scheme/fund</u>		
1. Objectives	21	26.25
2. Past performance	15	18.75
3. Suitable gains	18	22.50
4. Type of products	15	18.75
5. Brand image	3	3.75
6. Investor service	8	10.00
Total	80	100.00
<u>Type of investors most served by mutual funds</u>		
1. Rich individuals (urban)	23	28.75
2. Middle class (urban/rural)	9	11.25
3. Giant business corporations	37	46.25
4. All above	11	13.75
Total	80	100.00
<u>Type of funds preferred by investors</u>		
1. Close ended	8	10
2. Open ended	72	90
Total	80	100

Unlike some years back when UTI (Government sponsored) fund dominated the market, from Table 1, we can notice a drastic shift of interest to private sector mutual as 65 percent of respondents preferred them for public sector (20%) and foreign sponsored (15%) While most respondents indicated to like open ended scheme (90%) the remaining preferred close ended schemes with most investors influenced by a number of factors, the scheme proposed objectives attract

most of them while past performance and the nature of products offered hold same influencing effect upon respondents. In Europe brand name in financial service has a turnaround effect yet in India if counted less as per the reason indication suitable returns of a scheme to influence many investors as the second after objectives at 22.5% Why mutual funds haven't been everybody's favorite is indicated by respondents claim that the class of society must served by

mutual funds are giant business with (46%) while they are closely followed by rich individuals residing in cities.

While 14% of respondents indicated that all classes (rich business houses and middle class throughout country) get benefit of mutual funds only 11% opined that the middle class staying in both urban/rural India benefit from mutual funds. Therefore from the above priority analysis we can identify a few areas that need improvement as well as notices the trend towards which this industry is riding. The investors are the stigma of this industry thus should not be ignored. It should be noted that while such information is important it will not count to progress if it is treated like an old wine in a new bottle. Implementation is crucial for a rational future growth.

Suggestion and Conclusions

Distribution of mutual fund products is one area India lags behind not only the developed world but also Asian neighbors like Singapore and Malaysia. Yet is the most crucial part of the business, because that is where the interface is. Thus the certification of agents is quite important. The future of the mutual fund industry is virtually inextricable from the growth of the Indian economy, investment patterns and government policy and the development in the capital market. The government plays a major role encouraging and attracting investor's confidence towards new highs. The future growth

depends upon participation of small investors (household savers) in capital market, variety of instruments and break – through of mutual funds from the large city limit to rural parts, a geographical spread, etc. Mutual funds are integrating modern technology driven systems for better efficiency, these become a one stop service center by providing a wide range of products and services the investor has a plethora of options to choose from enhancing a quality – conscious assessment comparison among the competing products in the market through product differentiation.

As the mutual fund industry expands, interest in mutual fund portfolios diversification techniques increase, though on the flip –side the investors is thrown to more dilemma, without enough information, perhaps improvement of ethical standards is a remaining task. Mutual fund industry is under progression, thus developing more variants for the mundane investors and houses explore out new targets. Equity schemes lost their luster with the bursting of the tech bubble and September eleven attack brought down the debt markets too. How many fund houses try to cope with these adverse effects especially as many unit holders lose their pelf in these periods? This paper attempts to throw light towards better understanding on how the mutual fund industry plays a role in economic development.

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