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Indian Mutual Fund Market - A Tool to Stabilize Indian Economy

A Study based on Existing Literature

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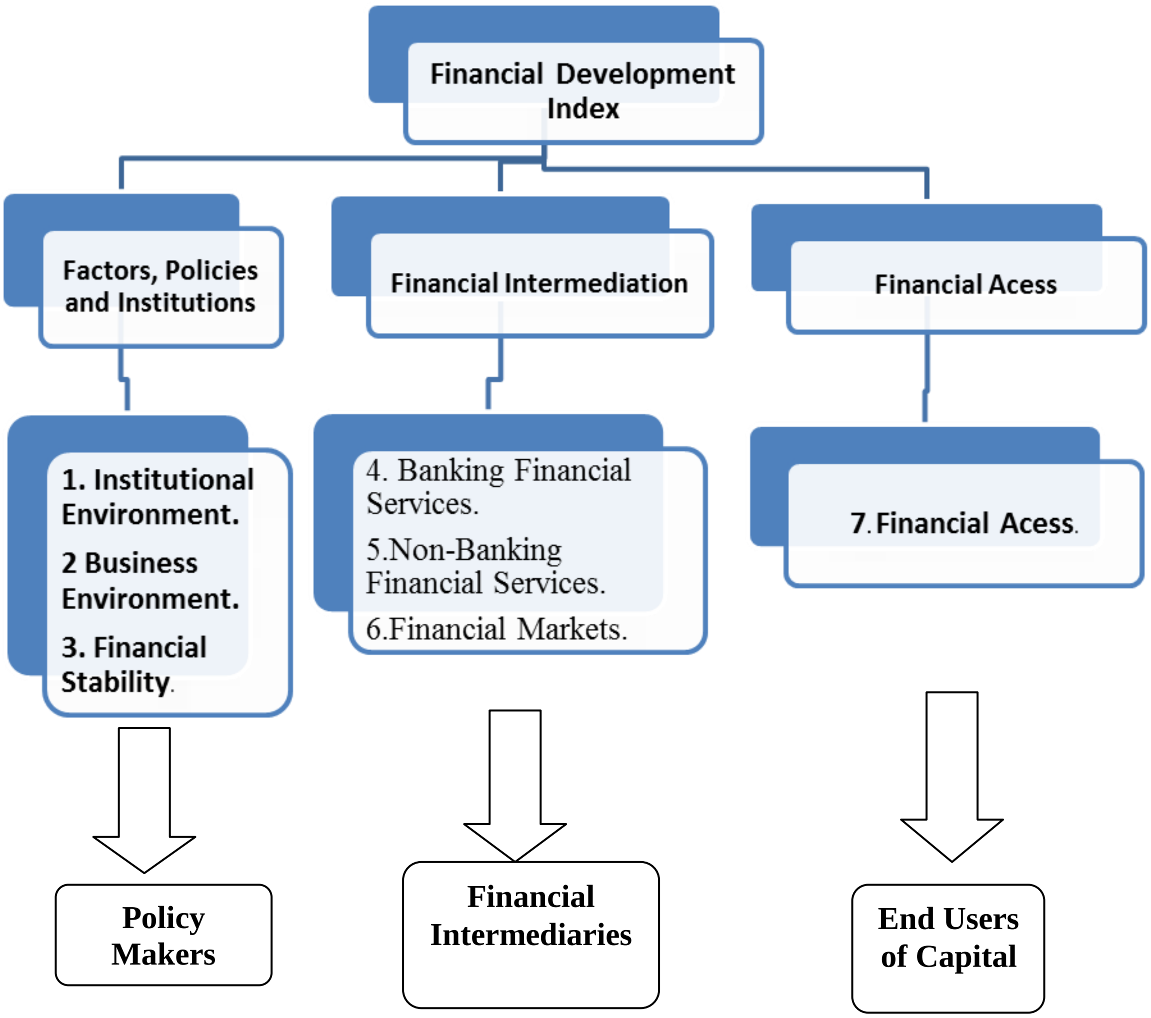
***Abstract*-** This paper focuses on three aspects: (a) Mutual fund a tool to stabilize Indian economy. (b) Review of existing literature with respect of mutual fund performance and (c) Asset management and channelization of scattered savings in the infrastructural development of India. The result shows that mutual fund is a powerful tool and financial product to mobilize scattered savings among investors and channelize these fund to infrastructural development and thereby economic development of the country. The total asset management of mutual fund business is increased from 1079.46 billion rupees to 7014.43 billion rupees from the last ten years. The role of Banks and Financial institution to promote mutual fund business is ever increasing in the market regulated economy in India.

Index Terms- Mutual Funds, Asset Management, Net Resource.

I. Introduction

The overall development of an economy is mainly depends upon the development of financial and economic situation prevailing in that country. The degree of depth and efficiency in the provision of financial services depends on several factors, all of which—along with their respective interactions—must be taken into account when one is looking to understand and measure the degree of financial development. Conceptually, in an index that measures financial development, the various aspects of development can be seen as seven “pillars” grouped into three broad categories. 1. Factors, policies, and institutions: the foundational characteristics that allow the development of financial intermediaries, markets, instruments, and services. 2. Financial intermediation: the variety, size, depth, and efficiency of the financial intermediaries and markets that provide financial services. 3. Financial access: access by individuals and businesses to different forms of capital and financial services.



According to the Financial Development Report 2011 of the World Economic Forum, India ranks 36 (37 last year)in terms of financial development among 60 countries. While in terms of financial stability, India's rank was 47.The report further says that " India's particular strength lies in its non-banking financial services (5th), with Initial Public Offering (IPO) activity(5th), Insurance (7th) and securitisation (4th), and at the same time a low level of financial sector Liberalisation (56th) an inability to enforce contracts (57th) , an underdeveloped infrastructure(56th) , and a high cost of doing business (55th) all contribute to a weak institutional and business environment ranked (54th) . Weakness in financial acess (47th) was a feflaction of indias lack of acess to capital (41st).

India ranks 40th in the 2012 Financial Development Report a four-spot decline from last year among 60 countries. Weak results in the institutional (56th) and business environment (55th) pillars continue to be driven by an inability to enforce contracts (60th), a low degree of financial sector liberalization (58th), inadequate infrastructure (58th), and a high cost of doing business (56th). Although its factors, policies, and institutions are quite weak, India did experience a slight improvement in the financial stability pillar (46th). The change was due to score improvements across the currency stability (16th) and risk of sovereign debt crisis (47th) sub pillars. India's financial intermediation results are mixed. While India ranks quite high in non-banking financial services (9th), banking financial services (45th) are an area for improvement. Financial access (45th) results are also inconsistent, with India having a development advantage in the commercial access (25th) sub pillar but a development disadvantage in the retail access (51st) sub pillar.

While comparing these two reports and positions of India among other countries of the world reveals that, general conditions and financial positions and developmental factors of India is low as the results of inefficiency in strong policy decisions, Lack of financial Inclusion and market orientation and political instability. And global financial crisis add turmoil in Indian financial system. The weak areas are really the areas of concern and proper attention for embarking upon the future financial development of the country.

II. Significance of the Study

Mutual fund is a mechanism by which, the savings of large numbers of small investors are polled together and collective instrument is made with the objective of attractive yield and capital appreciation, holding the safety and liquidity as prime parameters. Generally mutual fund is a tool to make financial investments in the financial instruments or assets of the business sector corporate business sector for mutual benefits of the members.

Mutual funds are managed by asset management companies, ideally a hub of business institutions whom have business qualification and professional insights, who manage the funds and invest in a number of securities and bonds and thereby reducing the risk of investing in a single security. This inherent diversification of portfolio that the investor can achieve by investing ina mutual funds, coupled with attraction of liquidity and transparency has been the factors in a continuous growth of the mutual fund industry all over the world.

In India , SEBI the market regulator defined mutual fund as, " a fund established in the form of a trust by a sponsor , or to raise money by the trustees through the sale of units to the public under one or more schemes or investing in securities or gold related instruments and real estates in accordance with the regulations". This definition does not specifies anything about the liquidity and security of investment portfolios and funds to protect the interest of the investors.

Objectives of the Study

- To evaluate the role of mutual fund business in India to mobilize scattered savings within the country.
- To study the past performance of mutual fund industry in India based on resource mobilisation.
- To analyse the present and future of mutual fund business service based on past performance.
- To evaluate the role of mutual fund as a tool of strengthen the market economy.

PRESENT SCENARIO

Financial distress and liquidity crisis are two major problem faced by the present world order. The global financial institutions are facing the problem of distress , the inability to manage funds, sustain liquidity, which ultimately leads to the position of insolvency of the financial institutions like , Banks/ mutual fund Organisations and financial service providers.

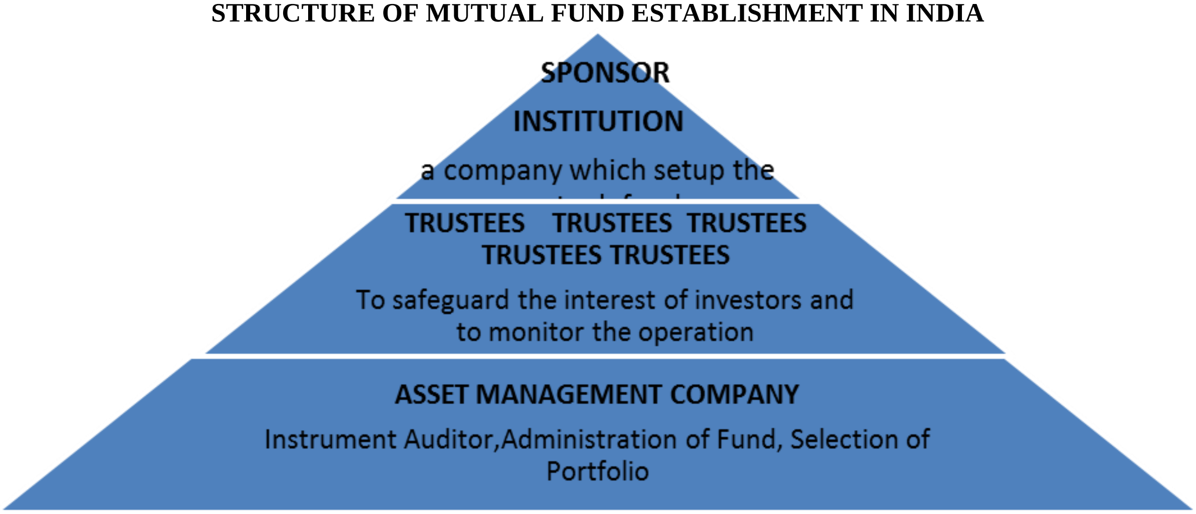
MUTUAL FUNDS IN INDIA

Mutual fund institutions in India largely dealing with the funds in the nature of . Equity Funds, Growth Funds, Mid-Cap Funds, Value Funds, Equity Income Funds, Index Funds, Exchange Traded Funds (ETFs), Sector Specific Funds, Segment Specific Funds, Equity Linked Savings Schemes, Debt Funds, Corporate Bond Funds, Gilt Funds, Floating Rate Schemes (FRFs), Bond Index Funds, Hybrid Funds, Money Market fund Schemes (MMFs), etc..

INSTITUTIONAL SETUP

In India, the formation and management of mutual fund is well managed by Securities Exchange Board of India (SEBI) and Reserve Bank of India (RBI) and the Central Government (GOI) in order to ensure the interest of investors or beneficiaries.

STRUCTURE OF MUTUAL FUND ESTABLISHMENT IN INDIA



Three tier structure of mutual fund establishment in India

REVIEW OF LITERATURE – PERFORMANCE EVALUATION OF MUTUAL FUND.

Sharpe (1964) made a significant contribution in the method of evaluating mutual funds. His measure is based on Capital Asset Pricing Model, market condition with the help of risk and return possibilities. Sharpe (1966) developed a theoretical measure known as reward to variability ratio that considers both average return and risk simultaneously in its ambit.

Treynor (1965) advocated the use of Beta Coefficient instead of the total risk. He argues that using only naive diversification the unsystematic variability of returns of return of the individual assets in portfolio typically average out of zero. So he considers the measuring a portfolio's return relative to its systematic risk more appropriate.

Jensen (1967) conducted an empirical study of mutual funds in the period 1954-64 for 115 mutual funds. His results indicate that these funds are not able to predict security prices well enough to outperform a buy- the market and hold policy. His study ignores the gross management expenses to be free. There was very little evidence that any individual fund was able to do significantly better than which investors expected from mere random chance.

Jensen (1968) measured the performance as the return in excess of equilibrium return mandated by Capital Asset Pricing Model. Smith and Tito (1969) conducted a study into 38 funds for 1958-67 and published results relating to performance of natural funds (Born, 1983).

Mc Donald (1974) found that on an average, mutual funds perform about as well as native' Buy and Hold strategy. Elton, Grubes and Blake (1996) examined the predictability of stock mutual funds performance based on risk – adjusted future performance .It also demonstrated application of modern portfolio techniques on past data to improve selection, which permitted construction of portfolio funds that significantly outperformed a rale based on the past rank alone. The portfolio so selected was re[ported to have small, but statistically significant, positive risk adjusted return during a period when mutual funds in general had negative risk adjusted return.

Jayadev (1996) papers enlighted performance evaluation based on monthly returns. Study was on the basis of monthly return compared to benchmark returns. Balaramaswamy and Yeung (2003) survey focus on Malasiya, a conjoint analysis was employed to generate the questionnaire and analyse its results. The result point out that three important factors which dominate the choice of mutual funds. These are consistent past performance, Size of funds and cost of transaction.

Arrif and Johnson (1990) who found that the performance of the Singapore unit trusts spread around the market performance with approximately half of the funds performing below thw market and another half performing below the market and another half performing above the market on risk adjusted basis.

Verma (1990, 1992) a study on mutual fund covers the conceptual and regularity aspect of India Mutual fund with some information task and guidelines to the investors in selection of mutual fund. Volkman and Wohar (1995) extend this analysis to examine factors that impact performance persistence and shows performance persistence is negatively related to size and regularly related to level of management fees.

Carhart (1997) shows that expenses and common factors in stock returns such as beta, market Capitalisation, one-year return momentum, and whether the portfolio is value or growth oriented " almost completely" explain short term persistence risk-adjusted –return.

Detzel and Weigand (1998) use a regression residual technique to control for the effect of investment style, size and expense ratios. They find, after controlling for these factors, no evidence of performance persistence.

Shankar (2008) find that the mutual fund industry is mostly caused by over-reaction of regulatory authorities. Non-equity assets under management were about 4,00,000 crores in April,2008 declined to 2,50,000 crores in October-2008. This may due to environmental issues caused by events outside India.

EMPIRICAL ANALYSIS

NET RESOURCES MOBILISED BY BANK-SPONSORED AND FI-SPONSORED MUTUAL FUNDS

Table-I

(Rs: Billion)

YEAR	BANK-SPONSORED						FI-SPONSORED			TOTAL
	SBI MF	Canara Robeco MF	Indiab Bank MF	BOI MF	PNB MF	Baroda Pioneer MF	GIC MF	LIC MF	IDBI MF	
1991-92	5.25	12.68	1.27	0.73	1.47	-	1.98	2.30	-	25.68
1992-93	10.41	0.16	1.17	0.05	0.25	-	3.71	3.89	-	19.64
1993-94	1.05	0.43	-	-	-	-	2.27	0.11	-	3.86
1994-95	2.18	2.06	0.94	0.54	1.56	0.38	3.20	0.69	1.87	13.42
1995-96	0.76	0.03	-	-	0.10	0.24	0.65	1.17	0.53	3.48
1996-97	0.03	0.02	-	-	-	0.02	-0.32	1.69	-	1.44
1997-98	1.90	0.47	-	-	-	-	-0.19	1.00	1.23	4.41
1998-99	-0.72	-0.17	-	-	-	-	-0.12	3.48	2.11	4.58
1999-00	6.59	-3.61	-	-	0.40	-0.02	-2.68	2.85	2.79	6.32
2000-01	2.52	-0.05	-	-	0.02	-	-0.43	5.66	7.50	15.22
2001-02	6.14	1.40	-	-	0.50	0.59	-0.56	6.40	-1.78	12.69
2002-03	6.86	2.37	-	-	0.14	0.96	-0.97	5.78	3.80	18.94
2003-04	19.27	4.95	-	-	18.41	2.63	-1.47	9.34	-	53.13
2004-05	10.24	-0.11	-	-	-	-3.07	-0.33	-33.51	-	-26.78
2005-06	52.80	0.56	-	-	-	0.29	-	21.12	-	74.77
2006-07	32.08	-0.96	-	-	-	-0.79	-	42.26	-	72.59
2007-08	73.39	2.95	-	-	-	-0.38	-	21.78	-	97.74
2008-09	26.17	13.17	-	-	-	5.56	-	59.54	-	104.44
2009-10	54.37	31.30	-	-	-	12.88	-	48.71	-	147.26

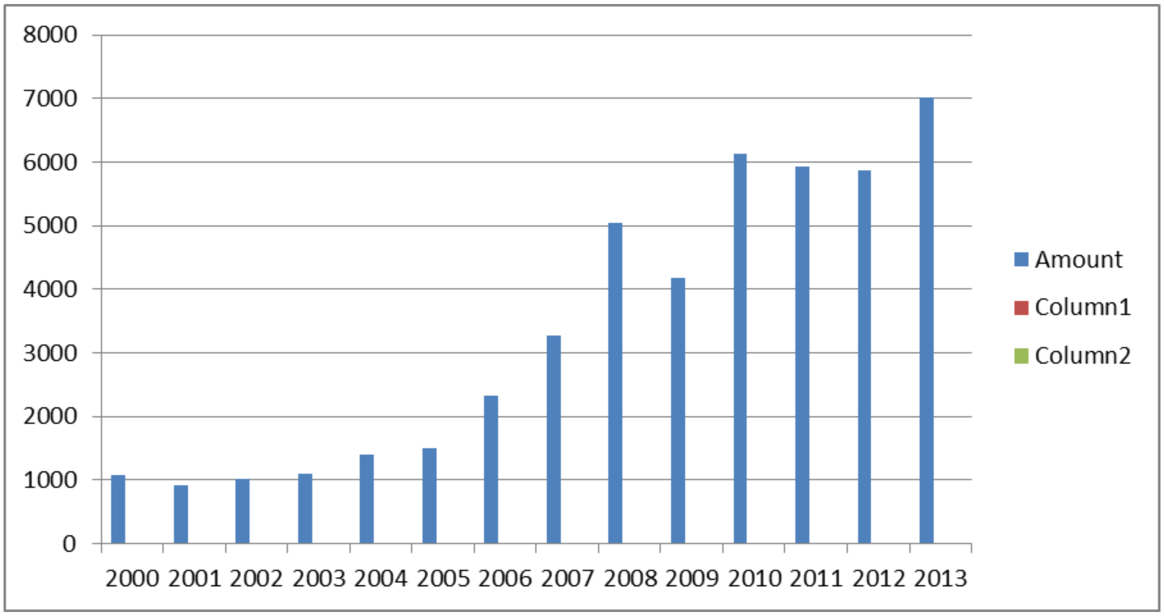
2010-11	42.42	-24.17	-	-	-	-5.20	-	-169.88	-	-156.83
2011-12	4.22	-3.64	-	-	-	3.31	-	-30.98	-	-27.09
2012-13	44.99	-0.46	-	-	-	13.77	-	13.12	-	71.42

Table 1, shows that, the net resources mobilised by Bank and Financial Institution sponsored mutual funds in India. During 1991 to 92 the Net resources mobilised by both Banks and other financial institutions through mutual fund was only rupees 25.68 billion. In the year 2004-05 shows a negative trend in the net resource mobilisation by both sectors.2010-2011 shows a decline of Rs:156.83billion the huge loss incurred in that year was on LIC sponsored mutual fund. Only State Bank of India mutual fund was better performing among all mutual funds during 2010-11 period. From the last twenty years growth of mutual fund business and resource mobilisation in India through banks and financial institutions depicts a clear picture about the sector and express the direct relations and growth of mutual fund industry and the impact of general economic conditions of the country and the global economic conditions and slowdowns. Six mutual fund institutions viz. Indian Band Mutual fund, Bank of India Mutual Fund, Punjab National Bank Mutual Fund,General Insurance company Mutual Fund, Industrial Development Bank of India Mutual Fund, have shown a negative market intervention and resource mobilisation. In the public sector mutual fund shows a total decline of Rs:210.70 billion in the last 20 years. Life Insurance Corporation of India score the first place among the public sector mutual fund industry in India.

Table II
ASSETS UNDER MANAGEMENT OF MUTUAL FUNDS (Rs: in Billion)

Year (end-March)	Amount
1	**2**
2000	**1079.46**
2001	**905.87**
2002	**1005.94**
2003	**1092.99**
2004	**1396.16**
2005	**1496.00**
2006	**2318.62**
2007	**3262.92**
2008	**5051.52**
2009	**4173.00**
2010	**6139.79**
2011	**5922.50**
2012	**5872.17**
2013	**7014.43**

Table: 2 Shows assets under management of mutual funds, Source: Securities and Exchange Board of India.



The mutual fund business, services, asset under management during the last decades and percentage change and the growth in the sector shows dramatic change and development . The last ten plus years was the booming period of mutual fund business in India. From the analysis it is evident that the future of mutual fund business in India as brighter as ever.Indian mutual funds are playing a vital role in the resource mobilisation from small and medium investors. The trend shows the positive growth and increasing tendency of assets management under mutual fund business in India. The total asset management of Mutual fund business in India during the year of 2013 was rupees 7014.43 billion.

Growth of mutual funds in India

Mutual funds are the important constituent of the capital market in developed countries. Now the modern world witness a change that the developing countries like India, China, Brazil, And Russia becoming a an investment friendly countries by various financial instruments especially mutual fund instrument, that constitute a dominant role in the short term market instruments.

The recent trend in the money market in India shows that the mutual fund became one of the important money market instruments ever. The mutual fund market plays a vary important role in the economic, financial and social development of our country by channelizing the scattered saving from the middle income group and small investors to the overall development of India. But at the same time there is some negative voices arising due to the selection of portfolios , asset management, and investment decisions.

The overall country's economic and financial growth shows a good future of mutual funds in india. It is proved that the countries savings rate and investment activities in financial assets risen especially in the case of mutual funds. The share of mutual funds (net resources) in gross domestic savings (GDS) was 5.78% in 1990-91. It increased to 8.08% in 2007-08. The global financial crisis during 2009-10 was a big blow in the mutual fund market in India and witnessed a sharp decline to 3.56%.

The mutual funds share in gross household savings (GHS) increased from 7.17% in 1991-92 to 13.26% in 2007-08. The past data and positive figures show a better future to the mutual fund market in India.

NET RESOURCES MOBILISED BY MUTUAL FUNDS (Rs: in Billion)

Year	UTI	Bank sponsored mutual funds	FI-sponsored Mutual funds	Private sector Mutual funds	Total (2 to 5)
1	**2**	**3**	**4**	**5**	**6**
1973-74	0.31	-	-	-	0.31
1974-75	0.17	-	-	-	0.17
1975-76	0.29	-	-	-	0.29
1976-77	0.35	-	-	-	0.35
1977-78	0.73	-	-	-	0.73
1978-79	1.02	-	-	-	1.02
1999-80	0.58	-	-	-	0.58
1980-81	0.52	-	-	-	0.52
1981-82	1.57	-	-	-	1.57
1982-83	1.67	-	-	-	1.67
1983-84	3.30	-	-	-	3.30
1984-85	7.56	-	-	-	7.56
1985-86	8.92	-	-	-	8.92
1986-87	12.61	-	-	-	12.61
1987-88	20.59	2.50	-	-	23.09
1988-89	38.55	3.20	-	-	41.75
1989-90	55.84	8.89	3.15	-	67.88
1990-91	45.53	23.52	6.04	-	75.09
1991-92	86.85	21.40	4.28	-	112.53
1992-93	110.57	12.04	7.60	-	130.21
1993-94	92.97	1.48	2.38	15.60	112.43
1994-95	86.11	7.66	5.76	13.22	112.75
1995-96	-63.14	1.13	2.35	1.33	-58.33
1996-97	-30.43	0.07	1.37	8.64	-20.35
1997-98	28.75	2.37	2.04	7.49	40.65
1998-99	1.70	-0.89	5.47	20.67	26.95
1999-00	45.48	3.36	2.96	169.38	221.18
2000-01	3.22	2.49	12.73	92.92	111.36
2001-02	-72.84	8.63	4.06	161.34	101.19
2002-03	-94.34	10.33	8.61	121.22	45.82
2003-04	10.50	45.26	7.87	415.10	478.73
2004-05	-24.67	7.06	-33.84	79.33	27.88
2005-06	34.24	53.65	21.12	415.81	524.82
2006-07	73.26	30.33	42.26	794.77	940.62
2007-08	106.78	75.97	21.78	1382.24	1586.77
2008-09	-41.12	44.89	59.54	-305.38	-242.08
2009-10	156.53	98.55	48.71	479.68	783.47
2010-11	-166.36	13.04	-169.88	-162.81	-486.00
2011-12	-31.79	3.89	-30.98	-395.25	-454.13
2012-13	46.29	58.30	13.12	707.53	825.24

The data released by SEBI and RBI and Central Statistical Organisation shows that the resource mobilised through mutual funds by Unit Trust of India, Bank-Sponsored mutual funds, Financial Institution Sponsored mutual fund and private Sector mutual funds increased from 0.31 billion rupees from the year 1973 to 825.24 billion up to 2013. This evidences that mutual fund is a better financial product or tool to mobilise scattered savings and there by motivate the economy and infrastructural development of the country.

Table 3 shows that, the net resource mobilised by Banks , Financial Institutions and private Sector mutual funds in the last 40 years. At the early stage of mutual fund business in India witnessed a developmental trend with gradual growth and inclusion of more and more market players. At the early stage of development the unit Trust of India was the only institutions in the mutual fund market. From the period of 1973 to 1979 UTI dominated the mutual Fund industry. Banks and other market players entering only in the period of1987.

III. Conclusion

This paper focuses on three aspects: (a) Mutual fund a tool to stabilise Indian economy. (b) Review of existing literature with respect of mutual fund performance and (c) Asset management and channelization of scattered savings in the infrastructural development of India. The result shows that mutual fund is a powerful tool and financial product to mobilise scattered savings among investors and channelize these fund to infrastructural development and thereby economic development of the country. The total asset management of mutual fund business is increased from 1079.46 billion rupees to 7014.43 billion rupees from the last ten years. The role of Banks and Financial institution to promote mutual fund business is ever increasing in the market regulated economy in India.

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