Financial system and economic development of a country are closely related. Today, India is on the path of high growth trajectory. GDP growth is touching 10 per cent mark. The sound and stable financial system has nicely supported the process of growth in last one decade or so. Undoubtedly, Indian financial system is dominated by the banking system. In the midst of all these, one important financial services, which has captured the attention of every one, is the mutual funds. It was non-existent till 1960s. It got started only in 1963 with the inception of U.T.I. For several years, this was unnoticed by a larger section of people. But during last one decade or so, it has become a favourite avenue of investment especially for retail investors. The main reason for this tremendous growth in the M.F. Industry in India is the rate at which Indian economy is growing. Today, Indian economy is growing at a very fast rate and what is heartening to note is that this growth rate will be sustaining in the years to come also. Mutual Funds, as financial services which mobilize saving of retails investor to the corporate investment, has a very significant role to play in the financial system and hereby in the economic growth of India.

The study on the “Role of mutual funds in Indian financial system” has been classified into five different chapters. First chapter deals with the introduction of the mutual funds industry in India. In this process, it also highlights the current state of the Indian economy which is at the moment very promising. We know that financial system is the nerve system of an economy and this study also tries to highlight the significance of sound and stable financial system in the economy. The second chapter deals with the origin and growth of the mutual funds industry in India. In this process, this section also
highlights the major factors that have contributed to its growth as well as some of challenges that are currently being faced by the mutual funds in India. The third chapter deals with the role that mutual funds an an important segment of financial system is playing in Indian economy. It pools the small saving of large number of investors and then invests them in the corporate securities. In this way, it promotes the industrial growth as well as economic growth. The fourth chapter deals the significance of mutual funds vis-à-vis NBFCs. R.B.I has recently allowed NBFCs to operate their mutual funds. In this section, the study makes an attempt to critically examine their significance also.

The last chapter comes out with some suggestion as to how the role of the mutual funds can be made more significant in the Indian economy. In India, less than 10 per cent people invest in mutual funds whereas in U.S. almost 50 per cent of people prefer to invest in mutual funds. This suggests this there is huge untapped potential which can be exploited to make the role of mutual funds more significant in the Indian financial system.

(P. Hanumantha Rao)