CHAPTER 5
FINDINGS,
SUGGESTIONS
AND
CONCLUSION
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Mutual Funds were introduced in the Indian financial system with a view to provide comparatively safer investment at the doorstep of the common investors. In this study an attempt has been made to study the growth of various types of mutual funds, performance of mutual fund with special reference to mobilization of savings, investment pattern.

Net resource mobilized by Bank sponsored Mutual Funds in the FY 2007-08, 2008-09 & 2009-10 was Rs 7597, Rs 4489 & Rs 9855 crores respectively thus showing adverse impact of recession on Bank sponsored Mutual Funds during recession. It’s cumulative resources was Rs. 148 crore in 1993-94 and reached Rs. 9855 crore in the year 2009-10. The reason behind the slow growth of bank sponsored mutual fund was it lacks various innovative schemes and the return generated by them was less in comparison to private sector mutual fund.

Net resource mobilized by Private Sector Mutual Funds in the FY 2007-08, 2008-09 & 2009-10 was Rs 128032, Rs-31425 & Rs 48166 crores respectively thus showing negative impact of recession on Private sector Mutual Funds during recession. Net resource mobilized by private sector mutual fund was negative for the first time in the year 2008-09 since its inception in the FY 1993-94. The cumulative resources of private sector mutual fund increased from Rs. 1560 crore in 1993-94 to Rs. 48166 crore in 2009-10 showing a remarkable growth. The reason behind the growth of private sector mutual fund was that they launched various innovative, tailor made products to suit the varied needs of investors viz. tax-saving schemes, balanced schemes, debt schemes, index based fund, sector specific fund, serial plans, fund of fund etc. They started offering different investment horizons to suit investors both short term as well as long term financial needs. Another notable change brought with the entry of private sector player is the emergence of new channels of distribution of increased emphasis in investor service.

Overall net resource mobilized by Mutual Funds in the FY 2007-08, 2008-09 & 2009-10 was Rs 148485, (Rs-24641) & Rs 78545 crores respectively. It shows how badly was the Indian Mutual Fund market in India was hit by recession.
1. In the study of data from CRISIL it was observed that majority of the funds were negatively affected during recession. Maximum number of funds saw major drop in performance in the category of Large Cap Equity Funds, Diversified Equity Funds, Small and Mid Cap Equity Funds, Equity Linked Savings Scheme, Index Funds and Hybrid – Balanced Funds. While, Hybrid – Monthly Income Plan – Aggressive and Hybrid – Monthly Income Plan – Conservative funds were not effected much by recession as many of funds in these category showed mixed trend during recession. However, Debt – Long Term Income Funds, Debt – Short Term Income Funds, Debt – Liquid Funds and Debt – Ultra Short Term Debt Funds showed slight positive growth during recession. It is observed from this that investors did not lose much faith in Systematic Investment Plan (SIP) / monthly investment schemes and henceforth, during recession investors believed monthly investment scheme to be a safe avenue for investment.

2. The investors’ saving trends investigation conducted has revealed that on an average overall percentage savings in mutual funds as a percentage of total investment has declined during recession. During normal circumstances mostly 48 percent of the people used to invest more than 5 percent but less than 10 percent of their savings in Mutual Fund as a percentage of total investment but during recession majority 62 percent of the people used to invest only more than 1 percent but less than 5 percent of their savings in Mutual Fund as a percentage of total investment. This shows the downward trend in investment of respondents in mutual fund during recession.

3. The investors’ saving conducted by the researcher has revealed that on an average, that overall 32 percent of the people invest in mutual funds. The area-wise investment pattern reveals that on an average 31 percent of the people invest in mutual funds belonging to ‘urban areas’ while 38 percent of the respondents who invest in Mutual Fund belong to ‘semi-urban areas’. The corresponding figure for respondents belonging to ‘rural areas’ is low as 13 percent. Thus mutual funds have yet not been able to penetrate the rural areas and have concentrated on urban & semi urban areas.
4. Further, an examination of the proportion of investments made by investors belonging to different income-group reveals that the respondents of higher income-group had invested a greater proportion of their savings in mutual funds followed by those of middle income group and the lowest was of those belonging to lower income group. Mostly (43 percent) of the respondents in the category of income of more than Rs 10 lac annually invest more than 5 percentage but less than 10 percentage of their savings in Mutual Fund while majority 75 percent of the respondents in the category of income of less than Rs 1 lac annually only invest more than 1 percentage but less than 5 percentage of their savings in Mutual Fund.

5. In regard to the reasons for investing in mutual funds, 39 percent of the mutual fund investor respondents did so because they perceived mutual funds as a good option for return. On the other hand 32 percent of them felt that mutual funds are good investment option for tax saving. Substantial 20 percent of the people feel that mutual funds are low risk /safe investment avenue. Thus safety is also of primary importance in the minds of Indian investors and mutual funds needs to reinforce their image as a safe investment avenue along with good returns.

6. It has been revealed that the maximum number of people (96 percent) invest their saving in any form of investment avenue. Their average savings is 36 percent of their total income. People invest most of their saving in mutual funds than other avenues. This shows that today Mutual fund is the most preferred avenue than others.

7. It has been revealed that majority of people (58 percent) invest in Mutual Fund on the bases of past performance of that particular fund. While 21 percent each of the people invest in particular Mutual Fund because of the brand image created and because of the advice given by their investment advisor or friends. This shows that past performance of the fund is much important for the investors.

8. The researcher interviewed respondents who had not invested in mutual
funds to find out why they did not invest in Mutual Funds. The lack of awareness about mutual funds appears to be the most important reason as it was supported by 50 percent of the respondents. This focuses attention on the need to educate the potential investors about the concept of a mutual fund. About 25 percent of the respondents felt that comparatively other investment avenues were more attractive while 18 percent respondents doubted the safety of mutual fund. 7 percent of respondents stated that they had not invested in mutual funds because the existing schemes were not tailored to need and preferences.

To popularize mutual funds, it is essential to educate the people and get a feedback from them to determine their needs and preferences and also creating confidence about the safety of investment in mutual funds.

9. Market Information should be provided to each and every client. The study clearly points out the importance of market information to the investors’. Fund fact sheets should be sent to all clients through email. The investment advisors of various Mutual Funds should highly emphasize the importance of the market information. The name of the fund manager, investment objective, returns, cost, sector allocation and top ten holdings may be highlighted by the investment advisors.

10. Transparency is a major issue in today’s world. In many cases it happens that the third party or a broking firm which sells mutual funds of different Asset Management Company (AMC) might miss-sell a fund to an investor. This can happen because the revenues paid by the AMC to the broking firms are unknown to an investor. Any broking firm can push more equity products to their clients instead of debt funds because equity funds give more revenues to them. Similarly among equity products also New Fund Offers (NFO) might offer higher revenues than existing good funds. So the revenue distribution should be very transparent.

SUGGESTIONS
In order to avoid various malpractices and poor performance of the mutual fund following steps may be taken:

i. The Asset Management Company (AMC) should exercise due diligence and
care in all its investment decisions as would be exercised by other persons engaged in the same business. With a purpose to implement the regulation in an effective manner and to bring about transparency in investment decisions, the AMCs are advised to maintain records in support of each investment decision which will indicate the data facts and opinion leading to that decision.

ii. Introduce more Arbitrage funds which can blossom during boom period and can withstand recession period. SBI Arbitrage Opportunity fund is one of the funds which have not given a negative return during the period of April 07 to March 09. Arbitrage funds will provide the hedging opportunities to Mutual Funds.

iii. Consolidation of the fund houses should be done. Consolidation is of two types, one that takes place between two different fund houses and the other that belong to mergers of schemes from the same fund house. HDFC mutual fund acquired with Zurich India, Sundaram mutual fund acquired Newton Investment Management, UTI mutual fund acquired IL And FS mutual fund etc. Thus if the mutual fund continuous consolidation it will gain economies of scale and will serve the investors in the better way.

iv. Mutual fund should give emphasis to technology wave. It will bring flexibility and convenience to investors. It will widen the reach of mutual fund. Advantages of technology wave include lower distribution cost through online transaction more customized and personal advice to customer.

v. Mutual fund industry should focus to mobilize the saving of the semi-urban and rural investors. The growth of the industry thus depends on the strong and well-spread intermediary chain. The intermediaries advisory committee constituted by Canbank Mutual Fund attempts to provide a plot for the intermediaries. It can further be expanded by including Public Sector Banks and post offices that can double up as collection centers. If they are allowed to sell mutual fund schemes can be widely expanded.
So as to ensure adequate participation of semi-urban and rural investors, mutual fund may also take the following steps:

a. Designing schemes tailored to the needs and preferences of rural and semi-urban areas.

b. Recruitment of agents from rural areas who are conversant with the local languages.

c. Advertising the schemes in media that has access to the rural and semi-urban investors.

d. Setting up of special investment cells in rural and semi-urban areas.

vi More tax incentives be given to investor of mutual fund. For the spurt growth of mutual fund industry more Equity-Linked Saving Schemes (ELSS) schemes should be launched which yield high return and better liquidity.

vii Through product innovation a variety of funds are available to the investors. Saini, Anjum and Saini also found out that New and more innovative schemes should be launched from time to time so that investor’s confidence should be maintained. All this will lead to the overall growth and development of the mutual fund industry. For instance, today many mutual fund offer innovative feature like same day redemption in liquid funds, institutional plans that will reduce the overall cost of investment and bonus units instead of dividend. Mutual funds should focus on schemes basically on power oil and gas, telecom banking and finance, pharmaceuticals, media, fertilizers, travel and, tourism, cement, engineering, metals and auto sector. Thus if mutual funds continue to launch these innovative scheme this help to attract more investors and will lead to spurt growth of the industry.

viii At a time when cost pressure is on the rise and opening several branches and adding point of sales might not be possible for a majority of the fund houses, direct involvement with internet users will help create a buzz about mutual funds. “Socialising” with the masses should increasingly becoming a new mantra for Indian mutual fund houses, which have been struggling hard to increase penetration of their products. No wonder, several of these houses should aggressively be active on social networking websites — Facebook and
Twitter. Going on social networking sites would just be a beginning in the right direction.

ix Distributors fees should be reduced as after the abolition of entry load, their income had reduced. “This reduction in fee will lead to higher number of distributors entering in Tier-2 and Tier-3 cities which will benefit the industry over a period of time.

x Association of Mutual Funds in India (AMFI) should reduce the registration fees for mutual fund distributors to increase the penetration of mutual funds and incentivize distributors beyond the metros. This would be required to make mutual fund more popular in semi urban and rural areas.

xi The fund names must also be made simpler to understand and give an idea of the risk return trade-off to be borne by investor and minimum investment horizon so that investor is able to make informed investment decisions.

xii There is a need to make mutual funds a good business proposition to expand their reach to smaller cities, towns and rural areas and solution to this lies in greater adoption of technology and innovative products.

xiii Miss-selling and complexity makes people jittery to enter financial sector and there is a need to inform fund managers, distributors and people in the selling business to sell the right kind of product to right kind of information.

Indian mutual fund has gained a lot of popularity from the past few years. Earlier only UTI enjoyed the monopoly in this industry but with the passage of time many new players entered the market, and many new schemes of mutual funds were launched due to which the UTI monopoly breaks down and the industry faces a severe competition. The researcher examined that the behavior of the Investor can be affected by many of internal as well as external environment. The demographical factors play critical role in determining investors’ behavior while investing in Mutual Fund.