PREFACE

The Indian financial system comprises of financial institutions, financial services, financial instruments and financial markets. All the four elements are closely related and work complementary to each other. They are playing a significant role for the mobilization and allocation of funds. The Indian financial system aims at developing an active capital market. There has been remarkable growth of Indian capital market since the first generation reform started in 1991 with the concept of LPG (Liberalization, Privatization and Globalization). The second generation reforms started in 1997 with the package of financial sector reforms, fiscal policy reforms, industrial policy reforms, public sector policy reforms, foreign investment policy reforms etc. have accelerated the pace of development of the Indian financial sector as well as of the capital market. Accordingly, new financial institutions and instruments were developed with the objective of modernizing the financial sector. Mutual Funds, Discount and Finance House of India, Money Market Mutual Funds, Certificate of Deposit, Commercial Papers, Factoring, Venture Capital, Treasury Bills etc. are serving the needs of individuals, institutions and companies. A country’s financial services sector has a great role to play in the process of its economic development. Leasing Companies, Mutual Funds, Merchant Bankers, Issue Managers, Portfolio Managers, Discount and Acceptance Houses etc. are the well known financial service providers in different countries.

In recent years, the Indian financial sector has undergone revolutionary changes and has become broad based with size and resources so as to meet diverse needs of the economy. In fact, the spread of the banking system is noteworthy in promoting financial intermediation in the economy as well as the notable growth of financial savings. However, due to lack of professional expertise and knowledge about capital market and also pros and cons of investment, the small investors hesitate to invest their hard earned money in corporate securities. This type of common investors may rely on mutual funds as such funds are managed by professional experts who are able to minimize the risk of investment and help earning a steady return. A mutual fund is a special type of institution which acts as an investment conduit. It is essentially a mechanism of pooling together the savings of a large number of investors for collective investments with an avowed objective of attractive yields and appreciation.
in their value. It is a financial intermediary that pools the savings of investors for collective investment in a diversified portfolio of securities.

The mutual fund industry is a fast growing sector of the Indian capital market. Mutual funds entered the Indian Capital market in 1964 with a view to provide the retail investors the benefit of diversification of risk, assured returns, professional management etc. Since then they have grown phenomenally in terms of number, size of operations, investor’s base and scope. Mutual fund industry in India had its origin with the establishment of Unit Trust of India (UTI) in 1964. Public Sector Banks and Financial Institutions began to establish mutual funds in 1987. The Private Sector and Foreign Institutions were allowed to set up mutual funds in 1993. The Indian mutual fund industry has grown tremendously in the last decade and it is a very important and dynamic sector in India’s capital market. The industry has become one of the fastest growing sectors in the countries capital and financial markets. They offer some unique benefits to investors such as liquidity, professional management, diversified portfolio, tax benefits etc. The popularity of funds has soared so have their diversity and complexity. In recent years, mutual funds are considered as ideal investment vehicle particularly for small investors who are lacking professional expertise and knowledge about investing in today’s complex capital market. Mutual funds are expected to serve those investors who have the willingness to invest but lack the skill, expertise and ability to diversify the investment risks. In fact the Indian Mutual Fund Industry has gained momentum in 1993 when the industry is opened for private sector. Also the SEBI (Mutual Funds) Regulations 1996, provides a boost to the development of mutual funds in India. However, as mutual funds are considered as a suitable avenue of investment for tapping small savings at present, they are expected to build good image in order to win investors’ confidence more by performing better not only in terms of return but also in terms of better services. As the Indian Mutual Fund Industry (IMFI) is growing by leaps and bounds in the recent years, more and more research should be conducted in order to analyze its functioning and to devise better means for assuring better performance of the industry.

Rajat Sharmacharjee