CHAPTER 13
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13.1 Introduction

The Indian Mutual fund industry has opened up many exciting investment opportunities for Indian investors. The industry has started witnessing the phenomenon of savings now being entrusted to the funds rather than in banks alone. The Indian mutual fund industry has seen dramatic improvements not only in terms of quality but also in terms of quantity. The private sector and foreign mutual funds can be credited with introducing many new practices such as new product innovation, sharp improvement in service standards and disclosure, usage of technology, broker education and support etc. In fact, they have forced the industry to upgrade itself and service levels of organizations.

Competition has been very stiff but still the last five years has been very exciting for the industry. There were some interesting mergers and acquisitions also. Product innovation has taken a new dimension and the focus now has shifted completely to delivery of performance in terms of matching investor’s expectations and reality. Even the distributors, registrars and transfer agents, and the regulators have become more mature and responsible and the current scenario in our country has brought with it a fresh wave of opportunities.
For the purpose of exploring these opportunities, few suggestions and recommendations are given below for the different parties associated with the industry such as the sponsors, fund managers of the different Asset Management companies, regulators, registrars, custodians, agents and the distributors and most importantly the retail investors.

13.2 Suggestions and Recommendations

The present study has made a sincere attempt in evaluating the performance of the mutual fund industry with special reference to ICICI Prudential mutual fund, HDFC mutual fund and Franklin Templeton mutual fund. Based on the observations made from the study, the following suggestions have been made:

a. For Regulators

1. SEBI has, undoubtedly, undertaken a large amount of work on the development of mutual fund regulation in recent years and has worked with AMFI on this and other areas but SEBI should further ensure for better corporate governance, and should bring about transparency in the operations of the mutual fund to safeguard the interests of the investors.

2. Appropriate measures should be taken for funds to make fair and truthful disclosures of information to the investors, so that subscribers know what risk they are taking by investing in funds.
3. Uniform co-ordinated regulations by a single agency should be framed to provide shelter to the investors.

4. Regulations should require firms to maintain and retain records of all complaints received, report how and when they were resolved, submit this information to regulatory authorities on a monthly basis.

5. SEBI should ensure that the concentration of the market operations should not be in the hands of select brokers.

6. SEBI should ensure that the AMC’s do not involve in any speculative activities and regular monitoring is required in this regard.

7. It is evident from the study that some mutual funds have not been performing well during the reference period and have incurred losses. The poor performance can be attributed to many reasons such as poor planning, improper fund management, bad market timing, weak distribution network etc. The regulatory bodies should intervene and seek justification from these companies for poor performance and if the poor performance continues for more than two years, they should not be allowed to continue with the weak scheme since they are running business with the hard-earned money of the investors. The regulatory agencies should ensure that the inexperienced and new investors receive a fair treatment and are safeguarded properly.
8. SEBI should also frame guidelines with regard to sales practices for the distributors. SEBI should ban distributors who offer mutual fund advice based on subjective or arbitrary information and make stringent norms for mutual fund brokers, researchers and analysts. It should also seek complete information of both the brokers and the clients they are servicing.

9. SEBI needs to get the distributors under the regulatory scanner. The stringent regulations should also include the distributor getting convicted if the nature of misconduct demands it.

10. Another area that requires to be addressed seriously is quick redressal of grievances and promptness in response to queries. This would infuse greater confidence in the retail investor community.

11. AMFI should ensure that apart from the distributors even the employees of mutual fund organisation should take up AMFI’s mandatory test.

12. Due to operators of many mutual funds, there should be appropriate guidelines for self-regulation in respect of publicity/advertisement and inter-scheme transactions within each mutual fund.
13. Financial illiteracy is one major weakness in our system. AMFI can play a very crucial role by educating investors and by creating awareness about the different mutual fund products.

14. SEBI can also issue guideline to the AMC’s and help them in focussing more on investment research.

15. From this study it is evident that Sharpe’s performance evaluation technique is most effective when it is used in conjunction with several other parameters and is logically more accurate. The Sharpe ratio can also be considered for schemes across a range of categories to check whether any scheme is revealing any abnormal behaviour. So AMFI can take initiative and insist that these techniques are widely used by the concerned parties to help the investors in choosing the right scheme.

16. SEBI should also bring some performance indicators that will reveal the quality of stock selection of various AMC’s.
b. For Mutual Fund Companies /Industry

1. The sea changes in the financial and economic scenario in our country have brought with it a fresh wave of opportunities. The mutual fund organisations should exploit these opportunities.

2. Mutual Funds need to offer products, which are affordable as well as competitive against low risk assured returns of government sponsored saving schemes like post office saving deposits.

3. From the investor’s perspective, mutual funds have emerged as the most appropriate investment vehicle. The expectations of investors have touched the sky with respect to profitability factor. So the sector will now be required to meet the expectations of the investors even as the markets expand, deepen and integrate with the rest of the world.

4. The Indian mutual fund industry needs to widen its range of products with affordable and competitive schemes to tap the semi-urban and rural markets in order to attract more investors.

5. The AMC’s should also ensure that they provide separate fund managers for every individual fund. This will definitely enhance the performance of the funds.
6. The individual investors can be divided into various segments such as young families with or without small children, middle-aged people saving for retirement and retired people looking for steady income. By this kind of proper segmentation and by targeting the right product to the right customer, mutual fund companies can win the confidence of their customers.

7. Indian mutual funds must trade more actively in the secondary markets for corporate debt to deepen market liquidity and ensure better price discovery.

8. The companies should create an awareness about the SIP options which is always a good investment option for the investors when the market is volatile.

9. The AMC’s should focus more on the advertising strategy and also the marketing of the product.

10. The AMC’s should disclose information on their investment style, strategies and performance indicators clearly in their offer documents and annual reports. The risks associated with the schemes, risk adjusted return, the costs and expenses of the schemes, the management fees, and the Sharpe ratios with their related benchmarks should also be disclosed. This would help the investors in choosing the right scheme.
11. The fund houses can design innovative products where insurance and investment benefits are combined keeping in mind the safety and return needs of the investors. This will pull the moderate risk averse investors towards mutual funds.

12. The small retail investors should be better informed about the benefits of investment in mutual funds as compared to alternative investment avenues and they should be offered a choice between low-cost, low-risk and low-return standardised products by fund houses.

13. The AMC's should take the initiative of training the advisors about the new funds from time to time.

14. The company should come up with innovative ways of offering service to the investors at their door steps. This may be a costly affair but will surely give positive results in the long run.

15. Any direct or indirect influence on investors which prompts him to make an investment decision is very crucial from the company's point of view. The study says that 62 percent of the sample investors are influenced by the distributors. The mutual fund companies should ensure that the distributors are well trained to handle an intelligent investor.
16. Another important observation that was made during the survey is 32 percent of investors prefer online investment. Therefore the companies should introduce a more user friendly program to attract online investors.

17. The AMC’s must consider reducing the expenses to reduce the burden of the investors.

18. The mutual fund companies should mount an awareness campaign to bring investors into equity funds.

19. Investors must be given a standard prospectus in simple language prior to investing. The document should include all risks associated with the specific fund, the measures taken to mitigate them, and their potential impact.

20. The NRI market is required to be tapped as the potential for growth is strong. Semi-urban and rural areas can also be tapped for investors residing in very small towns and villages. The objective of these schemes should be to provide liquidity and the mechanism of sale; resale etc. should be simplified.
21. Another area that requires to be addressed seriously is to spread in the semi-urban areas of India as mutual funds are currently confined to some of India's major cities only.

22. The product differentiation and quality standards are the key factors to attract an investor. Hence more research is required in this area.

23. The portfolio allocation of the benchmark — proportion invested in government securities, corporate securities or the proportion invested in securities that fall under various rating grades — needs to be available instantly.

24. The mutual fund companies should gear themselves to address the issues of diminishing talent pool of the fund managers, pressures on margins, pressure of consolidation, innovation and product differentiation and meeting the issues of governance.

25. Mutual fund industry should be fully equipped to face stiff competition from the global players which is expected to go up further in the Indian mutual fund industry. It may lead to a new wave of consolidation by way of mergers and acquisitions (M&A) among the fund houses.
26. The study has also observed that 15 percent of the distributors fail to convey the objective of the funds clearly to the investors. So the relevant companies should ensure that the objectives are conveyed clearly.

27. The fund industry should design those security devices that protect the integrity of on-line transactions of the investors.

c. For Mutual Fund Managers

Fund management is not a science but an art of scientific perception, forecasting and futuristic vision and market induced decision making. Thus the fund managers are the backbone for the mutual funds and they should concentrate on the following areas to improve the performance of mutual funds.

1. Fund Scan – In-depth analysis should be carried out before investments are made.

2. Market positioning is very important. So the fund managers should focus more on market positioning to satisfy the needs of the investors.

3. The fund managers should educate the investors and make them well aware of the characteristics, risk-return trade off in investments in a mutual fund scheme.
4. The long delays in investor servicing and inadequate response to the investor queries should be rectified.

5. Success of mutual funds in the long run would be bright only if the fund managers understand the needs of the investors while designing the schemes. The schemes should offer flexibility, liquidity and risk adjusted rate of return that suits all categories of investors. They should also upgrade their skills and technology. Hence, more research is required in this area.

6. Since the investors need for liquidity is found to be very high, fund managers can launch more open-ended schemes.

7. The fund managers can think of having tie-ups at the payroll level with organisations. This inculcates the principle of systematic investment planning so that it becomes a monthly habit and a form of compulsory investing.

8. With respect to the mutual fund managers, they should migrate from 'industry' to 'opportunity zone': to make participants look at the different spectrums of opportunities and rebuild investor confidence.
9. Mutual fund managers should monitor the activities of their agents/distributors to ensure that they do not indulge in any kind of malpractice or unethical practice while selling/marketing mutual funds units. If any intermediary does not comply with the code of conduct, the mutual funds should report it to AMFI and SEBI.

10. It was found in the survey that few investors had stated that they would invest again in the sample companies even after a bad investment experience. This is an important issue that the fund managers have to consider. In order to retain these investors innovative schemes have to be designed to satisfy their needs and a healthy relationship has to be developed by offering quality post sales services.

d. For Mutual Fund Distributors

1. Distributors should strictly stop recommending inappropriate products solely because the intermediary is getting higher commissions.

2. Distributors should strictly discontinue practices like encouraging, over transacting and churning of mutual fund investments to earn higher commissions, even if they mean higher transaction costs and tax for investors.
3. Also, when marketing various schemes, distributors are advised to remember that a client's interest and suitability to their financial needs should be kept in mind. The study has observed that 77 percent of the distributors give different levels of attention to the investor’s base on segmentation. The investors should be fairly treated. The distributors should give the same level of attention to all the investors in order to attract and retain the customers.

e. **For Mutual Fund Investors**

1. If the investors are thinking of investing in a mutual fund, they should remember to follow these rules diligently before they set out to invest their hard-earned money.

**Simple Rules of Investing**

- In choosing mutual funds, the first task of the investors is to formulate their investment objectives and identify the time frame.
- The next step is to identify which type of mutual funds match their investment goals and risk tolerance.
- Diversify among different asset classes to help reduce risk and potentially increase the rate of return of the portfolio.
Diversify among different investment styles to potentially reduce risk and increase returns.

Understand the relationship between risk and reward.

Maintain realistic expectations about investment performance.

2. The investor should carefully decide on which mutual fund to opt for and to ascertain whether the fund house has a process-driven approach to identify the right investment opportunity.

3. The comparative performance, both absolute and risk-adjusted, will give the investor an insight into the fund manager's ability to outperform the peers and their benchmarks over different periods of time.

4. The fund manager, also known, as the "Portfolio Manager" decides where, and in what allocation, money is to be invested. The investors should remember not to trust any one fund manager. So it is pertinent that the investor evaluates the fund manager carefully before investing. It is crucial for investors to evaluate the fund house also on parameters like fund management philosophy, investment approach and processes (team-based or individualistic process), before making an investment decision.

5. The comparative performance, both absolute and risk-adjusted, over various time periods vis-a-vis both the benchmark index and its peers
will give the investors an insight into the fund manager's ability to outperform the peers and the benchmark over different periods of time. So the investors should take great care in this aspect.

6. Investors must be cautious while investing in a fund that gives higher returns or a rapidly appreciating NAV. There is a lot more to performance than just the headline NAV return number.

7. The investor should look at returns over a period of time and take into account the performance of the scheme not just during the bull phase but also during falls.

8. Before entering into a mutual fund transaction based on mutual fund distributor's advice, the investors should remember that they should not trust anyone blindly as it is their hard earned money.

f. **For Researchers**

The researcher is of the opinion that there is lot of scope for research in this subject with regard to the various relevant aspects of mutual funds. Some of them are:

- Study on Ethical mutual funds
- Study on Mutual fund investment styles
- Study on Fund manager's decision making
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- Portfolio preferences of urban mutual fund investors
- Portfolio preferences of rural mutual fund investors
- Techniques of disclosure and cost reduction
- An empirical study on agency costs
- Investor orientation in designing mutual fund products
- Investment behaviour of rural investors
- Investment behaviour of urban areas
- Various other techniques for evaluating mutual fund performances.

13.3 Conclusion

This study tries to evaluate the performance of Indian mutual fund industry with special reference to ICICI Prudential mutual fund, HDFC mutual fund and Franklin Templeton mutual fund. After a detailed examination, this study observes that the mutual fund industry has exploded and the popularity of mutual fund investing is undeniable. The shift in the preferences of the mutual fund investors towards mutual funds can be attributed to many reasons like increase in returns from mutual fund investments, availability of solid products tailored to meet their financial needs, the gradual change in risk profile of the investors as well as the attempts by the Association of Mutual Funds of India (AMFI) to put in place an appropriate regulatory environment. Thus the tremendous success the fund industry has enjoyed is due to the fact that it has done more than any other financial services industry but in the long run to be
successful mutual fund organisations requires complete understanding of the peculiarities of the Indian stock market and the expectations of the investors. Transparency should be followed like a religion in every mutual fund because malpractices, inefficiency and poor performances are usually rooted in lack of transparency.

A major challenge posed before the mutual fund industry would be that of dealing with the diminishing talent pool of the fund managers, pressures on margins, pressures of consolidation, innovation and product differentiation and meeting the issues of governance as an increasing responsibility is being placed on the trustees to ensure that the operations of the funds are managed to the full benefit of the unit holders.

In line with the industry requirements and to match with the best of standards and practices available elsewhere in the world, the regulatory framework and guidelines are constantly updated and made sensitive to the market realities. The regulator plays a very active role in promoting and ensuring strict compliance of the regulations as well as in developing the industry on healthy lines. This has helped to see Indian mutual fund companies/sector from a broader prospective. India now has virtually every possible type of mutual fund product. Indian stock markets have broken all-time records. Investors have been pouring into funds and have been reaping handsome returns.

Undoubtedly, the Indian mutual fund industry which has evolved out of four distinctive phases has come a long way and has never had it so good and
there is still enormous scope for growth. Going forward, the researcher also believes that with increasing maturity of the Indian investors, more and more investors would be drawn to the mutual fund sector; investors would increasingly have a greater degree of comfort, fund managers would continuously innovate and deliver relevant products to attract investors and the consumer demand is expected to boom in line with the growing economy. FIIs are more likely to remain dominant participants. Also the quality of financial advice, product diversification, distribution and greater transparency will augur positive growth rates for the industry. This certainly portrays plenty of opportunity and there is huge growth potential for the Indian mutual fund industry. Overall the study has found the development and growth of the Indian mutual funds to be satisfactory.