

## ANALYSIS THE VARIOUS PROBLEMS AND PROSPECTS ASSOCIATED WITH THE MUTUAL FUNDS INDUSTRY

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### **Abstract**

*The Indian mutual funds industry is as old as four decades, but its growth and awareness reached the present levels only during the last five years. At present, Indian mutual fund industry has seen dramatic improvements; both quality wise as well as quantity wise. Because mutual fund have been a significant sources of investment in both government and Corporate Securities in order to fulfill the socio-economic and political objectives. The dawn of liberalization and globalization created a new hope and aspiration in the field of savings and investment particularly in mutual funds industry. Banks and financial institutions play a major role in mobilizing the resources through mutual funds. In addition, the presence of private sector mutual fund creates a vital competition among the mutual funds players. Presently, numerous mutual funds exist, including private and foreign companies. The number of fund houses went on increasing, with many foreign mutual funds setting up funds in India and the industry has witnessed several mergers and acquisitions. In order to regulate the industry and to protect the interest of the investors SEBI has revised various regulations issued on mutual funds, which govern the transparency of operations and disclosure standard of mutual fund industry.*

### **Introduction**

The economic development of any country depends upon the existence of a well-organized financial system. It is the financial system, which supplies the necessary financial inputs for the production of goods and services, which in turn promote the well being and standard of living of the people of a country. Moreover, the responsibility of the financial system is to mobilize the savings in the form of money and monetary assets and invest them on productive ventures. At the end of March 2007, India's mutual fund asset was 3.3 trillion rupees. In addition, India's market for mutual funds has generated substantial growth in assets under management over the period from 1995-2005. In response, the growth of the mutual funds industry, banks have increased their participation in the provision of mutual funds services. The increased involvement of bank and entry of foreign players and customers made aware of the differences between mutual funds services and insured deposits provide other related services.

### **Needs for the Study**

Developments in Indian capital market were not consistent before 1950 .The growth of the industrial market was very much limited, there were very few companies, and the number of securities traded in the stock market was smaller. Some special financial institutions were setup after independence for promoting capital market. The institutions

tried to mobilize individual savings and created favorable circumstances for investing part of the saving in the capital market. Mutual Funds are targeted towards all the section of the society. The funds have to attract all types of investors. The investors have various avenues of investment for their savings to flow in accordance with their performance.

### **Statement of the Problem**

The performance of mutual fund industry in India suffered qualitatively, of late; mutual funds find their going very tough. Most of the funds are not able to collect the targeted amount from small investors. Investors tend to keep out the new issue mutual funds and they prefer to buy units from the secondary market even by paying a brokerage charges. The main reason of its poor growth is that the mutual fund industry in India is new in our country. Large sections of Indian investors are yet to be intellectual in this concept. Moreover, the year 1992 Stock market scandal, the losses by disinvestments and of course, the lack of transparent rules in the whereabouts rocked confidence among the investors. Now, the key challenges of this industry are net mobilization of funds securing the trust of the investors and educating the investors about mutual funds. The industry has to be innovative and competitive and the members of this industry have to strive for its development and growth and its continuous increase in members.

The above situation raises the following issues;

- To what extent the contribution of mutual fund Industry helps to promote the Indian economic scenario.
- What are the various factor considered by the investors to invest money in mutual fund?
- What are the problems tackled by the mutual fund industry, mutual fund investors and public?
- What are the potential prospects of mutual fund industry?

### **Objectives of the study**

1. To identify the various factors influencing investors towards the performance of investment in mutual funds in India.
2. To identify the various problems faced by the mutual funds investors and mutual funds industry in India.
3. To highlights, the investors' opinion on the role of SEBI, NSE and government policies related to mutual funds industry in India.
4. To give valuable suggestions and recommendations to improve the performance for mutual funds industry.

### **Methodology**

The validity of a research depends on the systematic method of collecting data and analyzing the same in a sequential order. In present study, extensive uses of both primary and secondary data were made.

### Sampling Design

#### Distribution of Sample Respondents in the Study Area

District	Name of the Taluks	No. of Sample Respondents
Madurai	1. Madurai North	100
	2. Madurai South	100
	3. Melur	100
	4. Peraiyur	100
	5. Thirumangalam	100
	6. Usilampatti	100
	7. Vadipatti	100
Total		700

A decision has to be taken concerning a sampling unit before selecting a sample. Here the sampling unit has been decided as mutual fund investors in Madurai District. The Madurai District consists of seven Taluks. The population of mutual fund investors in Madurai District is indefinite. The respondents were chosen from all the seven taluks at the rate of 100 each. The respondents were selected

by using “Probability Sampling” method.” Stratified Random Sampling” technique has been followed to carry out the study.

### Data Analysis

**Table 1 General Problems according to its Seriousness identified in the Mutual Fund Industry Operated in India**

S.No.	Problems	Total Score	Mean Score	Rank
1	Lack of proper pricing of units	35583	50.8	V
2	Disparity between Net Assets Value and listed Price	35228	50.3	VI
3	Non-uniformity in the calculation of Net Assets Value	33072	47.2	VII
4	No standard formula for calculation	29706	42.4	IX
5	Absence of qualified sales force	41596	59.4	I
6	Lack of awareness on mutual funds industry	37907	54.2	IV
7	Adverse price impact	38192	54.6	III
8	Lack of proper processes	31202	44.6	VIII
9	Lack of proverbial experts	38327	54.8	II
10	Lesser growth in products of mutual funds	29633	42.3	X

The major problems faced by the mutual fund industry were absence of qualified sales force with the Garrett mean score of 59.4 topping the list followed by the lack of proverbial experts with the Garrett mean score of 54.8, adverse price impact with the Garrett mean score of 54.6, lack of awareness on mutual funds industry with the Garrett mean score of 54.2 and lack of proper pricing of units with the Garrett mean score of 50.8. Further it is followed by disparity between net assets value and listed Price with the Garrett mean score of 50.3, non-uniformity in the calculation of net assets value with the

Garrett mean score of 47.2, lack of proper processes with the Garrett mean score of 44.6, no standard formula for calculation with the Garrett mean score of 42.4 and lesser growth in products of mutual funds with the Garrett mean score of 42.3.

#### Problems faced by the Investors while Investment in Mutual Funds

Table 2 Problems faced by the investors while investment in mutual funds

S. No.	Problems	Total Score	Mean Score	Rank
1	Lack of cooperation between investors & mutual fund company	33908	48.44	VII
2	Poor investor servicing	37464	53.52	III
3	Lack of providing adequate information	30424	43.46	X
4	Lack of transparency	33464	47.81	IX
5	Failed to build up investors confidence	37438	53.48	IV
6	Lack of investors education	38449	54.93	II
7	Uncertainty of interest rate	34300	49.00	VI
8	Costly search for information	29045	41.49	XI
9	Low return with high risk	40116	57.31	I
10	High trading costs	36470	52.10	V
11	Manipulation at the time of selection	33834	48.33	VIII

A number of problems while investing in mutual funds affected the respondents. The following are the problem was ascertained through personal interviews with the mutual fund investors. The significance of these problems were tested with the help of Garrett ranking. The following table shows the rank order. Among the major problems faced by the respondents, low return with high risk with the Garrett mean score of 57.31, followed by lack of investors education with the Garrett mean score of 54.93, poor investor servicing with the Garrett mean score of 53.52, failed to build up investors confidence with the Garrett mean score of 53.48, high trading costs with the Garrett mean score of 52.10, uncertainty of interest rate with the Garrett mean score of 49, lack of cooperation between investors and mutual fund company with the Garrett mean score of 48.44, manipulation at the time of selection with the Garrett

mean score of 48.33, lack of transparency with the Garrett mean score of 47.81, lack of providing adequate information with the Garrett mean score of 43.86 and costly search for information with the Garrett mean score 41.49.

**Problems associated with Business Environment towards Mutual Fund Industry in India**

**Table 3 Problems associated with Business Environment towards Mutual Funds Industry in India**

S. No.	Problems	Total Score	Mean Score	Rank
1	Complicated policies and procedures	26681	38.12	XIII
2	Too much depends on outside agencies	35900	51.29	V
3	Negative attitude of investors	34409	49.16	VII
4	High risk with long term investment	51014	72.88	I
5	Lack of systematic evaluation for investors requirements	39121	55.89	IV
6	Lack of well regulated organization	30044	42.92	XII
7	Lack of professional experts	41306	59.01	II
8	Lack of depth in the market	34002	48.58	VIII
9	High rate of	33922	48.46	IX
10	Instability of government and political trends	35639	50.91	VI
11	Adverse economic growth	30401	43.43	XI
12	Adverse impact on globalization and liberalization	31976	45.68	X
13	Instability of capital market	39314	56.16	III
14	Frequent changes in taxation policy	26481	37.83	XIV

Due to business environment, the respondents faced many problems. The following lists of problems were collected from the investors involved in mutual fund industry. Garrett ranking analyzed the significance of these problems. The following table shows the rank order. With the above table, it is clearly noted that high risk with long-term investment tops the list with Garrett mean score of 72.88 followed by lack of professional experts with Garrett mean score of 59.01. Next comes the instability of capital market with Garrett mean score of 56.16 which has equal importance in investment in mutual funds and it is followed by lack of systematic evaluation for investors requirements with Garrett mean score of 55.89, too much depends on outside agencies with Garrett mean score of 51.29, instability of government and political trends with Garrett mean score of 50.91, negative attitude of investors with Garrett mean score of 49.16. The eight Problems associated with business environment towards mutual funds industry in India is lack of depth in

the market with Garrett mean score of 48.58, high rate of inflation with Garrett mean score of 48.46, adverse impact on globalization and liberalization with Garrett mean score of 45.68, Adverse economic growth with Garrett mean score of 43.43, lack of well regulated organization with Garrett mean score of 42.92, complicated policies and procedures with Garrett mean score of 38.12 and frequent changes in taxation policy with Garrett mean score of 37.83.

### Scope of Mutual Fund Industry

Some of the major factors with respect to its importance in the scope of mutual funds industry in India have been identified in order to know the investors' attitude on risk and return towards growth of investment in mutual funds in India and were tested with the help of Garrett ranking. The following table shows the rank order.

**Table 4 Scope of Mutual Fund Industry**

S.No.	Scope of Mutual Funds Industry	Total Score	Mean Score	Rank
1.	Scope for underwrite shares	34223	48.89	IX
2.	Small investors from entering in to the capital market directly	40915	58.45	II
3.	Subscribe to mutual funds shares at par	30709	43.87	XV
4.	Attract house hold savers	28504	40.72	XVII
5.	Opening of the market to foreign investors	33390	47.70	XII
6.	Provide wide range of product based on security, growth and liquidity	42357	60.51	I
7.	Grant Voting rights in companies for mutual funds	31150	44.50	XIV
8.	Dividend tax exemption for all income	33957	48.51	X
9.	Full income tax exemption for all income	37205	53.15	III
10.	Rendering efficient and prompt services	31626	45.18	XIII
11.	Ensure good return, quick liquidity and safety.	37016	52.88	IV
12.	Promote the investment habit of the rural and semi - urban areas	33950	48.50	XI
13.	Polling the resources of a large number of small savers for corporate investment	36956	52.79	V
14.	Increase household expenditure	34237	48.91	VIII
15.	Investors risk aversion attitude	35217	50.31	VII
16.	Create good rapport with the investors	30401	43.43	XVI
17.	Savers resources productively for equity capital	36071	51.53	VI

With the above table, it is clearly noted that provide wide range of product based on security, growth and liquidity tops the list with Garrett mean score of 60.51 followed by small investors from entering in to the capital market directly with Garrett mean score of 58.45, full income tax exemption for all income with Garrett mean score of 53.15, ensure good return, quick liquidity and safety with Garrett mean score of 52.88, polling the resources of a large number of small savers for corporate investment with Garrett mean score of 52.79, savers resources productively for equity capital with Garrett mean score of 51.53, investors risk aversion attitude with Garrett mean score of 50.31, increase household

expenditure with Garrett mean score of 48.91, scope for underwrite shares with Garrett mean score of 48.89, dividend tax exemption for all income with Garrett mean score of 48.50, opening of the market to foreign investors with Garrett mean score of 47.70, rendering efficient and prompt services with Garrett mean score of 45.18, grant Voting rights in companies for mutual funds with Garrett mean score of 44.50, subscribe to mutual funds shares at par with Garrett mean score of 43.87, create good rapport with the investors with Garrett mean score of 43.43 and attract house hold savers with Garrett mean score of 40.72

#### Factors influencing the Performance of Mutual Funds Investment

The respondents are investing money for various reasons. The following list of factors influencing the performance of mutual funds investment. The significance of these factors was analysed by Garrett ranking. The following table shows the rank order.

**Table 5 Factors influencing the Performance of Mutual Funds Investment**

S.No.	Factors	Total Score	Mean Score	Rank
1.	Safety of Principal	36413	52.018	I
2.	Adequate liquidity	35871	51.244	V
3.	Stability of income	35282	50.403	VII
4.	Capital growth	35910	51.3	IV
5.	Tax benefits	35624	50.892	VI
6.	Purchasing power stability	34338	49.054	XI
7.	Switching facility	34984	49.977	IX
8.	Conveniences	33534	47.905	XIV
9.	Hedge against inflation	34672	49.531	X
10.	Reduced risk	35967	51.382	III
11.	Regular return	36170	51.671	II
12.	Professional management	35068	50.097	VIII
13.	Low transaction cost	34329	49.042	XII
14.	Investment related publicity	34010	48.585	XIII
15.	Commitment	32829	46.899	XV

With the above table, it is clearly noted that safety of principal tops the list with Garrett mean score of 52.108 followed by regular return with Garrett mean score of 51.671. Next comes reduced risk with Garrett mean score of 51.382, capital

growth with Garrett mean score of 51.3, adequate liquidity with Garrett mean score of 51.244, tax benefit with Garrett mean score of 50.892, stability of income with Garrett mean score of 50.403, professional management with Garrett mean score of 50.097, switching facility with Garrett mean score of 49.977, hedge against inflation with Garrett mean score of 49.531, Purchasing power stability with Garrett mean score of 49.054, low transaction cost with Garrett mean score of 49.042, investment related publicity with Garrett mean score of 48.585, convenience with Garrett mean score of 47.905 and commitment with Garrett mean score of 46.899.

#### Level of Satisfaction about the functions executed by SEBI, NSE and Government Policy towards Mutual Funds Investors

Due to the present competitive environment, there are more number of facilities and concessions offered by the SEBI, NSE and Government protection of mutual fund

investors. In this study, an attempt was made to identify the level of satisfaction about the functions executed by SEBI, NSE and Government Policy towards Mutual Funds Investors by the sample respondents is shown in the following table.

**Table 6 Level of Satisfaction about the functions executed by SEBI, NSE and Government Policy towards Mutual Funds Investors**

S.No.	Factors	HS	S	N	DS	HDS
1.	Formation of certain structural changes	47 (7)	395 (56)	197 (28)	61 (9)	0
2.	Protection of the investors interest	64 (9)	311 (45)	288 (41)	30 (4)	7 (1)
3.	Formulation of a Standard format for mutual funds prospectus	35 (5)	294 (42)	342 (49)	22 (3)	7 (1)
4.	Adhering to the Code of advertisements	53 (7.5)	301 (43)	285 (41)	50 (7)	11 (1.5)
5.	Allowing assurance on returns	25 (3.6)	300 (42.9)	280 (40)	95 (13.5)	0
6.	Providing a minimum startup capital	47 (6.7)	293 (41.8)	257 (36.7)	54 (7.7)	49 (7)
7.	Institutionalization	43 (6)	303 (43)	284 (40.5)	70 (10)	0
8.	Investment of funds mobilized	35 (5)	319 (45.5)	291 (41.6)	45 (6.4)	10 (1.4)
9.	Meeting short term liquidity requirements	48 (6.9)	295 (42)	260 (37.2)	61 (8.7)	36 (5.1)
10.	Revealing the true value of the funds	37 (5.3)	315 (45)	297 (42.4)	49 (7)	2 (0.3)
11.	Streamlining their operations	47 (6.8)	340 (48.6)	260 (37)	39 (5.6)	14 (2)
12.	Underwriting of primary issues	45 (6.4)	333 (47.6)	250 (35.7)	65 (9.3)	7 (1)
13.	Ensuring transparency in their functioning	82 (11.7)	298 (42.6)	247 (35.3)	63 (9)	10 (1.4)
14.	Allowing the investors to exercise their voting rights	39 (5.6)	289 (41.3)	321 (45.9)	40 (5.7)	11 (1.5)
<b>HS - Highly Satisfied; S- Satisfied; N-Neutral; DS-Dissatisfied; HDS-Highly dissatisfied</b>						

From the above table it is observed that the mutual fund investors have been highly satisfied with ensuring transparency in their function with 11.7% followed by protection of the investor's interest with 9% and adhering to the Code of advertisements with 7.5% etc.

The mutual fund investors have been satisfied with formation of certain structural changes with 56% followed by streamlining their operations with 48.6% and investment of funds mobilized by 45.5% etc.

The mutual fund investors have been neutral in formulation of a standard format for mutual funds prospectus by 49% followed by allowing the investors to exercise their voting rights by 45.9% and revealing the true value of the funds 42.4% etc.



The mutual fund investors have been dissatisfied in allowing assurance on returns 13.5% followed by institutionalization by 10% and underwriting of primary issues 9.3% etc. The mutual fund investors have been highly dissatisfied in providing a minimum start up capital by 7% followed by meeting short-term liquidity requirements by 5.1% etc.

#### **Suggestions for improving the Performance of Mutual Fund Industry in India**

The followings are some of the suggestions, which the mutual fund industry should follow in order to project its image successfully:

- The increased involvement of banks has brought attention to their role in the sale of mutual funds share, including their responsibility for ensuring that customers are made aware of the difference between mutual funds and insured deposits.
- As there is no comprehensive law to regulate the mutual fund in India, uniform coordinated regulations by a single agency would be formed which would provide the shelter to the investors.
- Steps 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 fund.
- Due to operations of many mutual funds, there will be need for appropriate guidelines for self-regulation in respect of publicity/advertisement and inter scheme transitions with in each mutual fund.
- Infrastructures bottlenecks will have to be removed and banking and postal systems will be taken place for growth of mutual funds.
- Mutual funds need to take advantage of modern technology like computer and tele-communications to render services to the investors.
- Indian mutual fund industries have to attract investors' confidence globally.
- Also all the mutual fund investors who are engaged in this business have to share what they know to others.
- There is no distinction between trustee and fund manager, it is necessary to regulate frame work for a clear demarcation between the role of constituents, such as shelter, trustee and fund manager to protect the interest of the small investors.
- By providing liquid low-cost shares in diversified portfolio financial assets selected by portfolio money manager, mutual funds have enabled an increasing number of household to enter financial market.
- Mutual fund can penetrate rural areas like the Indian insurance industry with simple and limited products
- Uniform coordinated regulations by a single agency would be formed to provide the shelter to the investors

#### **Suggestions for solving the Problems faced by the Investors while Investment in Mutual Funds**

- There should be full, timely and accurate disclosure of financial results and other information that is material to investors' decisions.
- The investment should be simple to understand and easy to follow.
- It should take very little time to administrate.

- Mutual fund investment must have liquidity (getting your money back in case of an emergency).
- Mutual fund investors need to have expertise in managing different mutual fund products.
- There is a change happening in the capital market and the mutual fund sectors have a wide scope to perform well.
- Extending marketing assistance for development of new mutual fund products and for finding appropriate marketing strategies.

**Suggestions related to overcome the Problems associated with Business Environment towards Mutual Funds Industry in India**

- A record of accomplishment spanning both good and bad market environments, and a long-tenured manager or management team.
- By choosing several low-fee, high quality, diversified mutual funds.
- The mutual funds have to disclose periodically how they invest the different portfolio.
- Fund managers in India, periodically publish various performance reports using standard measures.
- Professional fund managers have expertise in managing investments as they have access to information that is normally not available to common investors.
- The higher return may arise due to higher exposure to risk on investments

**Suggestion for try to utilize the Opportunity for the Scope of Mutual Fund Industry in India**

- Globalization has brought about all round prosperity with properties, share prices and other assets prices moving up in the right direction.
- The per capita income has been on upward trend in India now, which may be taken advantage for the healthy trend in mutual fund investment.
- There is a change happening everywhere and the mutual fund investors need to adapt to these changes without complacency.
- There is a change happening in the capital market and the mutual fund industries have a wide scope to perform well.
- Extending marketing assistance for development of new mutual fund products and for finding appropriate marketing strategies.

**Suggestions related to increase the level of Satisfaction about the functions executed by SEBI, NSE and Government Policy towards Mutual Funds Investors**

- Some changes in guidelines that include standardization of the fund's portfolio and disclose of the balance sheet of the funds.
- Reduction in the time taken by AMCs to complete formalities from 90 to 42 days.
- Use of unclaimed money for investor's education.
- To streamline the operations of the funds and will give them more flexibility to the mutual fund investors.
- RBI relaxed norms for overseas investments people with similar investment objective come together to pool their money and then invest accordingly.

- The government is requested to establish favorable mechanism and policies for the mutual fund investors so that the various speed-up programs can be implemented.
- Simplifying the investment procedures, and helping the mutual fund sector to achieve efficiency. The government desires more and more involvement of mutual fund sector while the government should continue to play its facilitating role.
- The mutual fund investment system net work must be closely integrated, which means attention must be paid to establishment of several contact in one market.
- The government is requested to encourage more non-debt inflows in the form of foreign direct investment.
- New export and import policy may be introduced with participation of mutual funds investors and fund managers to consider the issues and problems faced by the present context.
- With its potential and leading role, the Association of Mutual funds of India (AMFI) has been establishing its world wise investment promotion network. This will be the reliable source of information for Indian mutual fund investors and mutual funds companies when entering such markets as well s reinforcing and widening the market share.
- SEBI has made it mandatory for every AMC to have a compliance officer who would be responsible for implementation of all laws, guidelines and voluntary code of contact. Compliant officer not only review but can also give approval to personal trading and investment transactions.
- Regulation should ensure that there is a proper and disclosed basis for asset valuation and the pricing and the redemption of units in a collective investment scheme.
- Holders of securities in a company should be treated in a fair and equitable manner.

### Conclusion

The role of mutual funds industry in India is an important segment of financial market for resource mobilization in capital market is going to be very significant. The number of foreign intuitional investors (FII) increased from 1044 in 2006 to 1219 in 2007. The sharp increase in funds flowing into mutual funds during 2007 was partly due to the buoyant equity market and partly to efforts made by the Indian mutual funds to introduce innovative schemes. Mutual fund industry becomes a basic essential need today, and the study recommends maintaining the present strength and utilizing the available opportunities. Awareness about the policies and procedures with respect the investors' attitudes on risk and return towards the growth of investments have to be created among the mutual fund investors. SEBI has taken several steps to consolidate the Indian mutual fund industry. Some changes in guideline include standardization of fund portfolios and disclose of the balance sheet of the fund. Diversification is the biggest advantage associate with mutual funds. Diversification reduces risk significantly.

The study conclude that the solve the problem of investors the government should come out by offering more schemes, and concessions to increase the mutual funds and also permit FDI in this sector which can take the Indian mutual fund industry to be the global market.

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