Mutual Funds Industry can become a Boom for Increase in GDP Growth: Applicable Model with Special Reference of India

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ABSTRACT

In mutual funds industry we know that it is basically an urban phenomenon. Investments in mutual fund are considered to be easy, compared with other available instruments in the market and the minimum investment is small. Still there is a lack of awareness in rural India about these investment options. Mutual funds have started penetrating the rural market through its new range of products, new strategies for rural market penetration and with new awareness programs. The degree of penetration is often measured by the amount of sales that are generated within the market itself. A product that generates twenty percent of the sales made within a given market would be said to have a higher rate of market penetration that a similar product that realizes ten percent of the total sales within that same market. Hence, it is very important issue for mutual fund industry.
Key words: mutual fund, market penetration, organization structure, investments.

Like in every business, in mutual funds industry also, market penetration is very important issue. Market penetration is a term that indicates how deeply a product or service has become entrenched with a given consumer market. The basic advantage of mutual funds is that, they are professional managed, by well qualified professional investors purchase funds because they do not have the time or the expertise to manage their own portfolio. It is considered to be relatively less expensive way to make and monitor their investments. Purchasing units in a Mutual fund instead of buying individual stocks or bonds, the investors risk is spread out and minimized up to certain extent. The idea behind diversification is to invest in a large number of assets so that a loss in any particular investment is minimized by gains in others. They buy and sell large amounts of securities at a time, thus help to reducing transaction costs, and help to bring down the average cost of the unit for their investors. Just like an individual stock, mutual fund also allows investors to liquidate their holdings as and when they want. In every sector or industry regulation is very important issue. For regulation of mutual funds the government of India has created many agencies, made many policies and is regulating the mutual fund industry in India. In this paper the researcher has mentioned the problems which the mutual fund industry is facing and later mentioned certain improvements. These problems of mutual fund Industry are discussed under following heads:

1. ORGANIZATIONAL STRUCTURE: The main purpose of mutual funds is to encourage and mobilize saving of the community and channelize them into productive corporate investment, but due to its organizational and management problems it suffers a lot.

A. **Authority is not clear:** Mutual funds are structured in a different organizational structure where the authority is not very clear. The AMC works under many bosses i.e. board of trustees, sponsor and board of AMC. This duality of command is very harmful for mutual funds sometimes.

B. **Weak decision making:** The role of the Asset Management Company is to act as the investment manager of the Trust and must have a net worth of at least Rs. 10 Crore, Whereas, the trust is established by a sponsor or more than one sponsor who is like promoters of a company. Here the AMC finds itself very weak in making decisions.Managing and retaining the right talent is be a key challenge for the fund Industry.

C. **Lack of awareness and financial education**: Investor education especially in small town and cities and rural areas is woefully lacking. With the introduction of more asset classes like gold, real estate and commodities through the mutual fund route, investor education will attain paramount importance in the future.

D. No clear span of control: The trustees are vested with the general power of superintendence and direction over AMC. They monitor the performance and compliance of SEBI regulations by the mutual fund. Then there is a custodian also, who keeps all the securities of various funds in its custody. Due to this the **span of control** is weakened.

E. Complex organizational structure: The organizational structure of a mutual fund or more appropriately of an Asset Management Company is a bit complex, as it is different from other companies. Mutual funds in India act as a unit trust. This is the main cause of concern and poses a big problem. The goal of distributors is to reduce risk to investors when they invest their amount in mutual funds. Other than these, there are certain other players in the mutual fund organization who are also important. They are: Investment Advisers, Administrator, Principal Underwriter, Fund managers and Transfer Agents. To control all these players is very difficult in absence of clear-cut power structure in mutual funds.

2. **WORKING PROCEDURES:** The mutual funds adopt a working procedure in which a network is created of a fund manager, a distribution channel and investors. Pivotal role in popularizing mutual fund schemes is played by the intermediaries/ distributors**.** They provide advisory service to the investors. SEBI/AMFI has already provided the guidelines and code of conduct for developing a professional and healthy conduct of business.

A. **Un-reasonable Brokerage:** The biggest challenge the industry facing is to service the distributors with reasonable/uniform brokerages like stock brokers. The mutual fund brokers do not get reasonable commission for selling units. Mutual funds normally come out with an advertisement in newspapers publishing the date of launch of the new schemes. Investors can also contact the agents and distributors of mutual funds who are spread all over the country for necessary information and application forms. Forms can be deposited with mutual funds through the agents and distributors who provide such services. Now a day, the post offices and banks also distribute the units of mutual funds.

B. **Outsourcing Challenges**: Back office and middle office outsourcing to specialist third party service providers is the "mantra" of the day to drive cost effective returns. The industry is seeing more and more of outsourcing enabling them to focus on the core business and avoid fixed overhead and infrastructural costs. The challenge for the fund houses will be to balance risk and outsourcing driven benefits.

C. **Managing nuances of distributor driven business**: Since the fund business is primarily distributor driven enabling them to reach to common man, there is heightened possibilities of wrong-selling. Today there is no restriction on multiple fund and insurance distributorship and as a result the probability of selling a fund with higher commission for the distributor is very high. Also the perennial problem of pass back of commission is a challenging task to handle.

3. **GOVERNMENT POLICIES AND REGULATORY ENVIRONMENT:**

A. **Maintaining right balance between business and compliance:** There is an increased cost of compliance and risk management with regulations and practices being benchmarked to international standards. Allegations of misconduct have led to rising regulatory standards around the world. The stricter regulatory standards pose a challenge to asset management companies, especially smaller firms lacking economies of scale. The increasing scrutiny of sales of funds is altering the financial relationship between asset management companies and third party distributors. The new environment for distribution will entail far more disclosure than in the past. In additional to regulatory developments, operational and compliance risk has become a top priority for traditional and standalone asset management companies as well.

B. **Establishing uniformity and common standards**: The common bugbear of all MF investors is the amount of paperwork required to tackle purchases and redemptions. No two fund application forms are similar; likewise each fund house has different rules pertaining to switches, redemptions and loads. For the lay investor this means confusion and ultimately chaos. The introduction of the mutual fund identification Number (MIN) was supposed to reduce this clutter but scrapping of the same by the Finance ministry just added to investor woes. Hence, a uniform and common set of standards is the need of the hour.

C. Need for Self Regulatory Organization (SRO): This is by far the most important catalyst for the sustained and orderly growth of mutual funds in the country. In the current dispensation, Securities and Exchange Board of India, through its mutual fund department, is in charge of overseeing the MF industry. While this sounds good on paper, in effect SEBI is quite busy with its governance of the capital markets (and rightly so) and is thus playing a passive role as far as the mutual fund industry is concerned. While SEBI has been pushing Association of Mutual Funds in India (AMFI) to convert itself into a self-regulatory organization, AMFI, being a representative of mutual fund is quite reluctant to do so due to the inherent multiple conflict of interest. There is a crying need for an independent regulator on the lines of IRDA which could understand the issues on hand and which could devote complete time and energy to the same.

D. **Compliance with global accounting and reporting standards:** Down the years it will become imperative for the Fund houses to move to a more transparent and International accounting and reporting standards like IFRS (International Financial reporting Standards) and GIPS (Global Investment Performance Standards). This will warrant higher Compliance and technical challenges. IFRS incorporate accounting principles familiar to investors worldwide which will encourage investor confidence in capital markets with various jurisdictions and financial reporting and this will further facilitate investment from both domestic and foreign sources of capital.

Less Use of Technology: Unlike Equity Market, Mutual fund market is somewhat primitive in terms of technical infrastructure and settlement process.

E. **No-Specific governmental policies for small investors**: There are no Governmental guidelines with an objective to protect the interest of the investors at all stages, especially for the small investors.

F. **Regulation of mutual funds is weak:** There was no regulation at all in the early years of mutual fund inception. Who can forget those horrible years of US-64 Scam, when, the mutual fund industry in India was not regulated? Still there is a need of a strong and independent regulator.

4. MARKET CONDITIONS AND BUSINESS SITUATION: Market conditions for mutual funds are not very favorable because of the availability of many investment options present in financial markets.

A. **Increase in rate of interest of banks:** The banks are increasing their rate of interests on deposits continuously, which has now on the verge of crossing the psychological barrier of 9% (annual). This affects the returns of mutual funds adversely.

B. **Urban nature and availability of product mix in market:** Mutual fund market in India is still very urban in nature. Mutual funds are still an urban phenomenon. Trust builds up over time. Brand image and reach are more important for developing the retail market. In the capital market also, there are new product mixes like insurance and investment (ULIPs) are available

C. **Small Vs institutional investors:** Mutual funds are primarily intended for small investors. Of late, the industry has skewed heavily towards the **institutional investors** due to the asset under management race. This is not a good sign of development for the long-term growth of the mutual funds market. One of the big challenges for the mutual fund industry in the near future is to tap investors from semi-urban and rural areas. Although the time and the cost involved in creating awareness and interest in their products are high. It can be reiterated that the mutual fund industry has to look for long-term **wealth creation** for the individual investors and **capital creation** for the industry and country as a whole. Institutional investors can be encouraged with a purpose of utilizing the fund management capabilities of the fund houses.

D. **Fluctuating returns:** In spite of being a diversified investment solution, mutual funds investment in no way guarantees any return. If the market prices of major shares and bonds fall, then the value of mutual fund shares are sure to go down, no matter how diversified the mutual fund portfolio be. It can be said that mutual fund investment is somewhat lower risky than **direct investment** in stocks. But, every time a person invests in mutual fund, he unavoidably carries the risk of losing money.

E. **Managing competition from the insurance industry:** Unit Linked Insurance Plans (ULIP) account for 80 percent of the Insurance business in India. They being similar in nature of mutual funds the challenge is to face the competition both within asset management firm and insurance company. Though, insurance firms require more capital for each insurance policy sold and have more onus of social responsibility, the nature of the ULIP business is similar to the fund business. It is a challenge which needs to be faced as a cohesive force.

F. **Managing competition from new entrants**: Low barriers to entry and increased competition from other asset management companies will squeeze returns and share in the Fund market in India. Though there is lot of untapped opportunity in India it will take its own time to unleash the potential

G. **Challenge of penetration in country's vast geography**: This is another vexed issue that has been worrying SEBI and the finance ministry. It is reported that almost 80 percent of all mutual fund collections emanate from six metros. This anomaly needs to be corrected at the earliest. While mutual fund houses have been increasing penetration into small towns, they often find the business un-remunerative due to the poor image of mutual funds that result in poor collections. Lack of investor education is an equally important factor responsible for low penetration.

H. Competition: Mutual funds are getting stiff competition from other investment options likeGold and other precious metals, Bank deposits (As the interests are increasing),Real estate and Share market

5. POLITICAL CONDITIONS: The political conditions in any country may be very compelling and they are very important for the capital markets and the overall financial system.

A. **Un-due pressure on markets:** Un-stable political conditions put extra pressure on markets and the whole economy gets affected due to that. In 1991 India had a very turbulent political scenario, there was a political vacuum at the center and the country was facing acute financial and economical crisis, unprecedented in the history.

B. **Delayed and faulty decision making:** When the political leader ship is weak it became unable to take decisions in the field of taxation, entry of FDI and FIIs, privatization, and most importantly in the field of convergence with global village.

C. **Rich Vs poor:** Due to unstable political situations all types of financial anarchies take birth and on the cost of common people, un-commons, rich people are benefitted.

6. TAXATION POLICIES: The taxation for Mutual fund, Asset management Company and Investor is different which is explained here below:

VARIOUS TAXES ON MUTUAL FUNDS:

1.INCOME TAX:

A. Mutual Funds (Trust): Section 10 (23D) of the Income Tax Act, 1961 provides that any mutual fund registered with SEBI or set up by a public sector bank or financial institution, or authorized by Reserve Bank of India is exempt from tax. The mutual fund trust that the sponsor constitutes through the trust deed is thus exempted from any tax on its income. No income tax is levied on mutual funds income.

B. Asset Management Companies: The financial statements of an AMC are distinct from the financials of each of its schemes. The AMC, like any other company, pays a tax on its profits and does not enjoy any special concessions or exemptions.

C. **Mutual Fund Schemes:** The money that the AMC collects from investors on behalf of the mutual fund trust is managed under various schemes. Each scheme has both its own **revenue account and balance sheet.** Since the schemes are managed for the benefit of investors, a scheme is essentially in the nature of a "pass through". As it is clear Taxing the "pass through" would constitute double taxation. The mutual funds are exempted from taxation; hence schemes are not liable to pay tax on interest, dividend, capital gains or any other income. As provided in **section 196(iv) of the Income Tax Act, 1961** they will receive all their income without any deduction of tax at source.

However, the taxes covered in the following sections are applicable.

2.SECURITIES TRANSACTION TAX (STT):

Equity schemes (MF) incur the STT as shown in the Table 1

TABLE 1: STT ON EQUITY SCHEMES

Delivery-based purchase of equity shares or units of equity oriented funds in a recognized stock exchange	0.125% of value of shares or units bought
Delivery-based sale of equity shares or units of equity oriented funds in a recognized stock exchange	0.125% of value of shares or units sold
Non-delivery-based sale of equity shares or units of equity oriented funds in a recognized stock exchange	0.025% of value of shares or units sold
Sale of Derivatives (futures) in a recognized stock exchange	0.017% of trade value
Sale of Derivatives (options) in a recognized stock exchange	0.017% of the sum of strike price and premium
If the option is exercised, the purchaser would need to pay	0.125% of value of shares bought
Sale of units of equity fund to the mutual fund	0.25% of value at which units are sold (i.e. purchased from investors)

STT is not an allowable expenditure while calculating capital gains. However, STT paid by a unit holder during the year in respect of taxable securities transactions entered in the course of business is allowed as deduction under section 36(1)(xv) of the Act subject to the condition that such income from taxable securities transactions is included under the head **"Profits and gains of business or profession".**

3. DIVIDEND DISTRIBUTION TAX Additional Tax on Income Distributed

Mutual funds are required to deduct "additional tax on income distributed to unit holders. For the purpose of exemption from the additional tax on income distributed, equity oriented fund means schemes where the investible funds are invested in domestic equities to the extent of more than 65 per cent of the net assets of such scheme. The percentage is computed as the annual average of monthly averages of the opening and closing figures, each month.

4. SERVICE TAX:

Mutual funds are liable to pay service tax as recipient of "Business Auxiliary services" from distributors or other mutual fund agents. The applicable rate is **10.30 percent.**

1. **Income tax:** The dividend (income) that the investor receives would be entirely tax- free, as provided in section 10(35) (a) of the Act. **Debt schemes** would have already been subjected to tax on income distribution, as discussed earlier.

2. **Securities Transaction Tax (STT):** Investors in equity schemes of mutual fund have to bear STT as follows:

- On transactions in the securities market (typically, closed-end schemes/ETF transactions with market maker):

➢ 0.125% of the value of the transaction on delivery-based purchase of units of mutual fund schemes.
➢ 0.125% of the value of the transaction on delivery-based sale of units of mutual fund schemes.
➢ 0.025% of the value of the transaction on non-delivery – based sale of units of mutual fund schemes.

- On transactions with the AMC (typically, pen –end schemes/ETF transactions with scheme):

➢ Nil, while acquiring units of mutual fund schemes.
➢ 0.25% of the value of the transaction when the units are repurchased by the AMC.

STT is not applicable to transactions in debt schemes.

3. Capital Gains: The difference between cost of acquisition of units of a mutual fund and the amount realized on their sale or redemption is **a capital gain** (provided it is not treated as business profit). Taxation of the gain on sale/transfer of mutual fund units may be treated by the income tax authorities as **business profit or capital gain**, on a case to case basis. If treated as business profit, the following basic tax rates would apply:

- Individuals and HUFs – Depends on the income tax slab applicable to the investor;
- Partnership and Indian companies – 30%
- Foreign Companies having income in excess of Rs. 1 crore – 2%

Additional surcharge of 2% towards education cess and a further 1% towards secondary and higher education cess will be applied on the amount of the basic tax and the surcharge. In all types of mutual fund schemes, it would be treated as:

- **Short-term capital gains** if the units are held for up to a year; or
- **Long term capital gains** if the investor holds on to the units for a period longer than a year.

In case of ELSS, the units are subject to a lock-in of 3 years. Accordingly, any sale of units after such lock-in will qualify as long-term capital gain. The taxability of these gains further depends on the type of schemes, as detailed below. **Equity schemes:**

- There is no tax on long term capital gains, provided the sale transaction is subject to securities transactions tax.
- If the sale transaction is not subject to securities transaction tax, then long term capital gains will be taxed as in the case of debt schemes (discussed below).
- **Short term capital gains** are taxable at 15 %, provided the sale transaction is subject to securities transaction tax. Further , surcharge will be applicable on the tax as follows:5% in the case of unit holders, who are domestic companies, where the taxable income exceeds Rs 100 lakh 2% in the case of other corporate unit holdersAdditional surcharge of 2% towards education cess and a further 1% towards secondary and higher education cess will be applied on the amount of the capital gains tax and the surcharge. Debt and Other (non-equity) schemes:

Short – term capital gains are added to the other income of the investor for taxation purposes. Therefore, the investor would pay tax at her applicable marginal rate of taxation including surcharge, as applicable.

4. TDS and withholding tax: TDS is not applicable on re-purchase transactions and income distributed to resident investors. In certain cases, withholding tax is to be deducted at source on case by case basis. One important tip for tax planning is double indexation: The market often talks of "double indexation". This refers to the practice of taking the benefit of indexation for 2 years, while holding the investment for just over a year. For example, if an investor buys units on 30 March 2014 and sells them on 2 April 2015, her holding period of the investment works out to just a few days more than a year. However, her indexed cost of acquisition would be worked out as follows: Cost of acquisition x index number for 2013-14 ÷ index number for 2015-16.Thus, the investor gets the benefit of indexation for 2 years, namely 2014-15 and 2015-16, although she has held the investment for just around a year. This is called double indexation and is a perfectly legal tool to plan taxes.)

The tax benefits which arise due to investment in mutual funds are Section 80 C,80 CCC,80 CCD,80 CCD ,80 CCE, 54 EC , 54 F, dividend stripping section 94 (Setting off capital gains and losses, and speculation profits and losses) Issue of Foreign Investment in (Equity linked) Mutual Funds: Foreign investment in listed securities is currently open only to foreign investors registered as a Foreign Institutional Investor (FII) (or as a sub-account) with the Securities and Exchange Board of India (SEBI) and Non-Resident Indians (NRIs). Though categories of foreign corporate and individuals sub-accounts do exist in theory, the eligibility criteria had raised the threshold significantly, leaving non-residents with little choice but to come through intermediated structures like FII or broad based sub-accounts. Further, indirect access to the Indian markets through the Offshore Derivative Instruments (ODI) has always remained shrouded with uncertainty and restrictions. As a welcome move, the Finance Minister has announced that equity schemes of mutual funds registered with SEBI (Mutual Funds) may accept subscriptions from foreign investors directly, provided they fulfill the KYC requirements as prescribed by SEBI from time to time. This announcement once implemented would allow market access for large overseas institutional investors as well as overseas retail investors desirous of participating in the Indian capital markets, without an intermediary. This move seems to have been motivated as a first step towards implementing the proposals of the Working Group Report and is clearly one of the most significant developments proposed in this Budget as far as the Indian capital markets are concerned. Having said that, the Indian AMCs need to be mindful of various regulatory and tax obligations that they may be exposed to in other jurisdictions while accepting contributions from a diverse investor base around the globe. For example, one would need to examine the applicability of the US Dodd Frank legislation to the AMCs and registration requirements in the US for mutual funds accepting contribution from US investors, both from a securities law as well as tax perspective. After discussing all these categorical problems I perceive that the mutual fund industry will face **following challenges** internationally. The researcher perceives transparency, disclosure and fairness in fund performance and fund investments are the key challenges. After the consequences of the sub-prime and the financial crisis in the United States, performance and creditability of international Funds is questionable.

SUGGESTIONS ON SPECIFIC POINTS FOR FUTURE:

Given below are the suggestions for the improvement of the overall working and status of mutual fund industry:

1. ORGANIZATION AND MANAGEMENT:

A. The basic problem, as we have seen that mutual funds are structured in a different Organizational structure where the authority is not very clear. The trustees who form a trust are sponsored, and thus they have a strong hold on the decisions of MF's actions. A strong and clear authority is very much the need of the MF industry. The AMC must be made strong and should be given powers to make independent decisions, of trustees.

B. Then there is a custodian also, who keeps all the securities of various funds in its custody. The span of control is weakened here again because while reshuffling the portfolios the Fund manager cannot take decision. It can be understood that these all arrangements are there to keep the investors money in safe hands but due to this somewhere the AMC cannot function independently as other profit-making companies do and hence the decision making process is seriously hampered.

The basic principles of management must be followed in mutual fund industry also, and the AMC should get complete authority to make decisions (say up to Rs 100 Crore) independently.

2. WORKING PROCEDURES:

A. **To Satisfy Investor's needs:** Application of pull and push strategies depends on the customer level of awareness about the Mutual Fund Offer. It is found that mutual funds are subjected to market risks. Risk in mutual fund is much higher when compared to bank interest rates and for every investment PAN card is a must. The essence of marketing concept in the MFIs as well as distributor-network is that they must adopt investor oriented features and focus their attention on building programs, offerings and strategies that satisfy investor's needs and wants.

B. Educative Working Strategy: The investors won't be having good knowledge regarding the mutual funds. So the distributors as well as the industry should help the investors in providing the required information and suggest them to invest in good fund. The working strategy of the distributors towards MF as well as individuals is also important. The suggestions should be given to investors on funds in a right way. Distributor's Benefits: The Industry must increase the commission of distributors and reduce profit percentage of the MFs as companies. Distributor is an intermediary between the MF and investor. Distributor can provide the required information regarding the fund performance based on the experience gained and the information provided by different AMC'S regarding different funds. Distributors should have good knowledge on all the funds so; campaigns are to be conducted through seminars and demos for them. Distributors play an important role for all AMC'S to sell their funds. The AMCs has to motivate the distributors by providing better incentives/gifts. The Company should conduct advertising campaigns for its services providing.

C. **Optimum Use of Technology:** Investors should be encouraged to use online account information system of the organization. Investors should be given right investment decisions by the IFA. The investors to decide in advance before investing of "How much to be invested" so that he should not incur loss if something goes wrong. Lastly, the industry can now try to focus on rural sector which has got a lot of potential. Proper Knowledge about Distributors: However, the investors must be educated that the mutual funds schemes being marketed by banks and post offices should not be taken as their own schemes because no assurance of returns is given by them. The only role of banks and post offices is to help in distribution of mutual funds schemes to the investors. Investors should not be carried away by commission/gifts given by agents/distributors for investing in a particular scheme. On the other hand they must be told to consider the track record of the mutual fund and should take objective decisions.

D. Marketing and Distribution channels: In India, AMCs work with five distinct distribution channels those are Direct, Banking, Retail, Corporate and Individual financial adviser.

1. The Direct Channels: In the direct channel, customers invest in the schemes directly through AMC. In most cases, the company does not provide any investment advice, so these investors have to carry out their own research and select schemes themselves. The fund companies provide several tools to investors who invest through this channel. This includes monthly a/c statement, processing of transaction, and maintenance of records. In this channel most investors can invest through websites, or receive information through telephonic services provided by the company. About 10-20% of the total sales of an AMC come through this direct channel.

2. **The Banking channel:** The large customer base of banks, in developed countries, has played an important role in the selling mutual funds. In the recent years, this channel has also opened up in India. Banks operating in India, including public sector, private and foreign banks have established tie-up with various fund companies for providing distribution and servicing. The banking channel is likely to develop as the most vital distribution channel for fund companies there are several reasons for the same. Customers remain invested in banks for long periods of time and therefore banks maintain a relationship of trust with their customers. Customers rely on advice provided to them by bankers as they are always on the lookout for better investment avenues. Managers are guiding to customers about various funds. An additional advantage that banks provide is

that the concerned customer becomes a permanent contact of the banks and therefore can be reached during launch of (new fund offer) NFO or new schemes any time in the future.

3. **The Retail channel:** A customer can deal with directly with a sub broker belonging to a distribution company, instead of taking trouble of dealing with several agents. Distribution companies sell the schemes of several fund houses simultaneously and brokerage is paid by the AMC whose funds they sell. The retail channel offers the benefits of specialist knowledge and established client contact and, therefore private fund houses are generally prefer this channel. Some of the major players in India in this in this channel are national players like Karvey, Birla sunlife, IL&FS and Cholamandalam. The key factor for this channel to sell a company's fund used to be the brokerage paid. The banking and retail channel generally contribute to about 50-70% of the total Asset under Management (AUM).

4. **The corporate channel:** The corporate channel includes a variety of institutions that invest in shares on the company's name. These are businesses, trust, and even state and local governments. For institutional investors, fund managers prefer to create special funds and share classes. Corporate can either invest directly in mutual funds, or through an intermediary such as a distribution house or a bank. Corporate sector exhibits varying degrees of awareness of mutual fund products. Most of the established corporate groups, such as the TVS industries in Hyderabad, are well-versed with the performance and composition of various funds. The smaller companies and start-up firms, however, need to be educating on several aspects of mutual funds. In order to provide information to such clients, fund companies usually organize presentation for these companies or set-up meetings with the finance managers.

5. **Individual Financial Advisors (IFA) or Agents:**

- The IFA channel is the oldest channel for distribution and was widely employed at the time when UTI monopoly in the market. In recent times with the emergence of other players it significantly decreased.
- An agent or broker, who basically acts as an interface between the customer and the fund house, there is a unique systems in place in India , wherein several sub-brokers are working under one main broker. The huge network of sub-brokers, thus ensure larger market penetration and geographic coverage. As per AMFI, over one lakh agents are registered to sell mutual funds and other financial products such as insurance across the country.

3. GOVERNMENT POLICIES AND REGULATORY ENVIRONMENT: The primary responsibilities of the government and regulators are to protect investors and to inspire trust and confidence in them. Regulators must keep up with the growth of the industry and change, with additional resources and new approaches to regulation.

A. **A strong SEBI**: It has been witnessed that the industry owes its credibility and growth to the efficient and effective regulation by SEBI. Hence, the SEBI should be made more powerful and more authoritative in its decisions.

B. **On-site checking:** It can be suggested that as the industry grows, it will become more important to add ***auditors and inspectors*** to periodically check the internal controls and operations of funds with on-site examinations apart from auditing the accounts and transactions.

C. **Establishing the Self Regulatory Organisation:** The AMFI should be made the SRO, in real sense, with the fiat of the government. The Association of Mutual Funds in India (AMFI) is a voluntary association of the industry which acts as a representative body for the industry members enabling the growth of the industry through various committees and deliberations in various forums and also creates and spreads awareness about the industry.

D. **To make the technology user friendly:** One of the key challenges would be to enhance the use of technology for efficient and seamless investor transactions between all the stakeholders like the fund house, registrar and the bankers. The government should make the paper less transactions its priority.

E. Robust regulatory framework for future: The Indian mutual fund industry in terms of *regulatory frame work* is believed to match up to the most developed markets globally. The regulator, Securities and Exchange Board of India **(SEBI),** has consistently introduced several regulatory measures and amendments aimed at protecting the interests of the small investor that augurs well for the long term growth of the industry.

The implementation of *Prevention of Money Laundering* ***(PMLA) rules,*** the latest guidelines issued in December 2008, as part of the risk management practices and procedures is expected to gain further momentum. The current *Anti Money Laundering* ***(AML)*** and *Combating Financing of Terrorism* ***(CFT)*** measures cover two main aspects of Know Your Customer (KYC) and Suspicious transaction monitoring and reporting. The regulatory and compliance ambit seeks to dwell on a range of issues including the financial capability of the players to ensure resilience and sustainability through increase in minimum net worth and capital adequacy, investor protection and education through disclosure norms for more information to investors, distribution related regulations aimed at introducing more transparency in the distribution system by reducing the information gap between investors and distributors, and by improving the mechanism for distributor remuneration. The success of the relatively nascent mutual fund industry in India, in its march forward, will be contingent on further evolving a robust regulatory and compliance framework that in supporting the growth needs of the industry ensures that only the fittest and the most prudent players survive.

4. MARKET CONDITIONS AND BUSINESS SITUATION: The mutual fund industry must meet the challenge of marketing the funds and its business by making all its constituents to think in broader strategic terms about their responses to increasing competition, advertising, corporate governance and disclosure.

A. Portfolio management: The mutual fund industry must ***fight with the increasing rates of interests*** and metal market. The strategy should be two fold;

i. ***First,*** it should design and launch some new products with guaranteed results and money back on regular intervals,

ii. **Secondly,** which is very clear from the very nature of mutual funds is *Portfolio Management*. It should press upon the fund managers to invest in such a way in market, so that the investors must get true value of their money.

B. **Strategic planning:** Industry should adopt such strategic plans which could help it to tap more and more resources to increase the net assets under management. The problem of small against institutional investors is a big problem which must be addressed keeping in the view that the capital structure of this industry should be like this that the major chunk of the capital should come from small investors and not from institutional investors or FIIs, so that it can be a mutual fund in real sense. ***Product positioning*** is more important now, for the industry to build up a confidence and trust in the small investor /individual to invest. The mutual fund concepts and developments are to be disseminated across the country. It requires an enormous amount of time, energy and money, to educate, communicate and provide the infrastructure, place and personnel.

C. **Product innovation:** The industry needs to come out with new products with market hedging capabilities which can enhance returns for investors as well as asset management companies. There has to be increased level of sophistication in the products offered in the market. In order to obtain better returns for the investments, fund managers have to look towards more structured products and absolute return investment products to increase overall fund performance. For example- We can have long term funds which tap the retirement money of individuals. In fact, it is an important aspect of business. Investors' needs are in tune with their risk appetites and returns expected. They also revolve around competition and growth in the industry. It is imperative to be innovative ahead of market trends. The advantage is specifically to those who have global experience. The products in future are expected to be children- oriented and investment protection products. Derivative based products and international investment products can also emerge as good options.

5. POLITICAL CONDITIONS:

A. **In built mechanism of governance in financial markets:** The financial markets should have such built-in procedures in which political conditions should not affect them, is the ideal situation. If we talk particularly of mutual funds the decision making bodies, either the sponsors, or the board of the mutual funds should not get affected by the political situation prevailing in the country at any particular time. The act and rules should be made like this, that some very basic constituents of the industry may remain unchanged.

B. **Independent boards:** Most of the boards of AMCs now have 50 % independent directors but still we cannot deny the fact that most of the funds are bank sponsored in India and in public sector all the big mutual funds are bank sponsored. In a country like India where we have government controlled banks, the interference of government cannot be denied and in turn the political bosses interfere with the decisions. Political bosses get affected by political conditions of the country and so on. This is a vicious-circle.

C. **Free and fair regulators:** We have to go step by step, first cleaning the political arena, secondly making Regulators of financial institutions free and fair, and then regulate the capital markets and mutual fund industry.

6. TAXATION POLICIES:

1) *Securities Transaction Tax* (STT) could be avoided.

2) *Long-term capital gain tax* on debt funds should also be avoided like on equity funds.

3) The government must provide a favorable tax regime for *Fund of Funds* scheme that implies extending tax benefits to investors and also to the funds.

4) The government must provide tax sops to encourage investment in equity (including overseas equity) as a long term saving and to encourage investments in the infrastructure sector (debt as well as equity); tax sops should also be extended to schemes investing in these areas as well.

5) The candidate is a bit critical about more tax soaps to be given to mutual fund investments (purely on individual basis) because than the small investor will be lured unnecessarily to invest in risky schemes of mutual fund for getting the tax benefits.

6) It may be recollected that the *"Report of the Working Group on Foreign Investment"* (Working Group Report) had proposed for a single window for portfolio investment, wherein investors intending to make portfolio investments (to be defined by the government) would be categorized under a single investment regime, thereby doing away with their categorization as a FII, FVCI or FDI with respect to such portfolio investments.

The findings of this study, as discussed above, prove to be of great use to the government for streamlining the working of capital markets through its regulatory bodies like SEBI, etc. so to check the exploitation of small investors who are one of the major reservoirs of capital needed for economic growth of the country. It may help SEBI to control effectively the working of mutual funds so to regain lost confidence with the investors and take effective steps for confirming investors' right adherence by them. As reported in the study, the mutual funds icon, can earmark and try to improve upon their weak areas regarding the factors that influence investors decision making as regards choice of a mutual fund, the facilities or options they expect from a mutual fund, the criteria they generally believe to be the best for performance appraisal of a fund, their general perceptions towards mutual funds at present and the problems which they encountered that resulted in development of aversion toward mutual funds in the minds of investors Mutual funds should extend full support to the investors in terms of:

(a) Participation in investment decision making of the concerned fund,

(b) Ensuring full disclosure of relevant information to investors by the fund, and

(c) Consultancy regarding understandability of terms of issue of different schemes, etc,
So, to help the common investor to regain confidence in this channel of investment that is most dependable reservoir of funds required for development of Indian capital market. As seen, the enormous growth of mutual fund industry, if controlled effectively, could be canalized for achieving better economic growth. The industry must solve its own organizational problems, its distribution channel problems and make the dealers and commission agents happy without hampering the interest of investors, particularly small and medium individual investors. Now, it is the responsibility of the industry to spread across the country for increase in investment not only in urban areas but in rural areas also, to ensure consistent growth in number of investors, to provide highest returns to investors, to give maximum secured options of investment, to provide a wide range of products, to make the processes easy to understand and execute. Then only the mutual fund industry will be able to compete in this era of *liberalisation, privatisation and globalisation.*

Conclusion

In the last few years mutual fund has come up very nicely and it certainly has given a better option in the hands of investors. The performance of mutual funds such as that it provided 10% minimum return with very less risk to the investors. Though there are other main investment options like ***gold, bank deposits, real estate and equities*** but still we can conclude that with good returns to investor, mutual fund industry in India has very good potential for expansion and growth under changing economic scenario and their popularity and profitability regarding various products of mutual funds has achieved great success.

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