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A COMPREHENSIVE STUDY ON MUTUAL FUND: PROBLEMS & SUGGESTIONS

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Abstract

If you save money today, you will be on safer side tomorrow. On the other hand, if you waste money today, you will be facing financial crisis tomorrow. But India is famous for middle income people who con not have control on their spending habits and who have less awareness to increase their earnings. It is true, when we observe our neighbors and relatives who always struggle to lead their daily necessities. Today's marketers of goods and services are no doubt misleading people through TV advertisements and serials on TVs. Two main instances we can quote here. A single serial on TV is running for more than ten years with unnecessary curiosities. This is totally time, energy and money waste on the part of people. Indian cricket matches like 20-20, ODIs and test matches are not exceptional. One more instance is mobile which boast free calls and messages. Through these entire, marketer is bagging money from people and becoming richer and richer day by day. But one who is really serious about his family in future will definitely spend economically and save and invest in bank deposits, shares and other securities. But investing directly by the investor need lot of financial idea. So, an investor may turn towards mutual fund investment which is risk free. Our paper has attempted to identify and highlight some of the key issues and challenges faced by the industry participants that are preventing the industry from harnessing its true growth potential. The challenges specific to the Indian mutual fund sector are those common to emerging markets stocks in general, which is that these companies depend heavily upon international growth. Unfortunately the outlook for international growth is not very good right now. In general, emerging market mutual funds are highly correlated to the developed markets, but even more volatile. When developed markets go up, emerging markets will usually go up even more; when developed markets go down, emerging markets will go down even more.

Keywords: Financial Crisis, Financial Instruments, Financial Vehicle, AUM, Volatile.

Introduction

Indian financial sector has undergone significant expansion during last decade. The Indian mutual funds retail market is growing at a CAGR of about 30% and it is forecasted to reach US$ 300 Billion by 2015. A well developed infrastructure has been promoted to cater the needs of growing saving and expanding capital market of India. A mutual fund collects the savings from small investors, invest them in government and other corporate securities and earn income through interest and dividends, besides capital gains. Hence, mutual funds

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enable millions of small and large investors to participate and enjoy the fruits. Where there is a development, problems are common. Mutual funds are common to this problem. The problems of public sector mutual funds – UTI, LIC, SBI mutual fund are differ from problems of private sector mutual funds – reliance, Bajaj alliance, Sunbirla, ICICI etc. At the same time, every problem has a solution.

Mutual fund investment is suitable for all types of investors. The growth of AUM (Assets Under Management) is the best evidence for the investor's interest in mutual fund investment. But still the mutual fund investors and mutual funds are facing so many problems in investment in India. The present study analyzes the problems and issues of mutual funds in India.

Objectives of the Study

- To analyze the key problems & issues in Indian mutual funds.
- To recommend suggestions for challenges of mutual funds.

Problems of Mutual Fund Industry

- **Problems Related to Structure**

The Govt. of India should consider enacting a separate comprehensive Mutual Funds Act and clearly spell out rights, duties and obligations of the various constituents of mutual fund to provide a uniform regulatory framework and to create a level playing field for all the mutual funds in the industry including UTI.

- **Problems Related to the Investors**

The queries received from the investors are promptly attended by all the private sector mutual funds. There are delays in attending queries by the transfer agents in case of UTI due to large number of queries received by them.

- **Problems Related to Working**

There are several problems related to UTI such as non-disclosure of portfolio, inter scheme transfer of funds, lack of professional fund managers, sale & repurchase of units of US-64 at prices not related to its NAV, bureaucratic working, etc.

- **Problems Related to Performance**

The mutual funds are bound to invest the funds as per their investment objectives of each scheme published in the offer document. After the issue is over, it becomes the mandate and the mutual funds have no choice to invest the funds in other securities, which can provide higher returns.

- **Low Level of Customer Awareness**

Low customer awareness levels and financial illiteracy pose a biggest problem to channelizing house hold savings into mutual funds. It came to know that low awareness levels among retail investors has a direct bearing on the low mutual fund off-take in the retail segment. A majority of retail investors lack an understanding of risk return, asset allocation and portfolio diversification concepts.

- **Limited Flexibility in Fees and Pricing Structure**

The fees structure in the Indian mutual fund industry enjoys little flexibility unlike developed markets where the level of management fees depend on a variety of factors such as the investment objective of the fund, fund assets, fund performance, the nature & number of services that a fund offers. While the expenses have continuously risen, the management fee levels have remained stagnant.

- **Limited Customer Engagement**

From the research reports, we came to now that both Mutual fund distributors and mutual fund houses have exhibited limited interest in continuously engaging with customers post closure of sale as the commissions and incentives have been largely in the form of upfront fees from product sales.

Some of the Key Challenges at Present

- **Over Diversification**

In order to diversify the investment, many times the mutual fund companies get involved in over diversification. The risk of holding a single financial security is removed by diversification. But, in case of over diversification, investors diversify so much that many time they end up with investing in funds that are highly related and thus the benefit of risk diversification is ruled out.

- **Slow in Decision Making**

Decision making on deals by the clients is likely to be slow for next quarters (which TCS and Wipro indicated in the last quarter of 2022-23 in the post-results commentary) given in the uncertain economic environments in large markets like US and Europe.

Managing Mutual Funds in India

Mutual funds and the unit trusts are governed by the Investment Act of 1940 in USA and by the Prevention of Frauds Act in UK. They are governed by the Securities Exchange Commission (SEC) in USA or by the Securities Investment Board (SIB) in UK. The four-tier system for managing mutual funds in India, ensuring an arm length distance between the sponsor and the funds, as designed by the SEBI, is discussed below.

- **The Sponsor**

According to SEBI norms, the sponsor should have professional competence, financial soundness and a general reputation for fairness and integrity in business transactions. The sponsor appoints the trustees, the custodians, and the asset management company.

- **The Trustees**

Persons who hold the property of the mutual fund in trust for the benefit of the nit holders are called 'trustees'. Trustees look after the mutual fund, which is constituted as a trust under the provisions of the Indian Trust Act.

The important functions of trustees,

- Keep under its custody all the property of the mutual fund schemes administered by the mutual fund.
- Furnish information to unit holders as well as to SEBI about the mutual fund schemes.
- Appoint an AMC for the purpose of floating the mutual fund schemes.
- Evolve an investment management agreement to be entered with AMC.
- Observe and ensuring AMC's schemes in accordance with the trust deed.

- **The Custodians**

An agency that keeps custody of the securities that are bought by the mutual fund managers under the various schemes is called 'the custodians'. They ensure safe custody and ready availability of scrips.

Some of the important functions of the custodian are,

- Safe keeping of the securities.
- Participating in any clearing system on behalf of the client.
- Collecting income/dividends on the securities.
- Ensuring delivery of scrips only on receipt of payment and payment only upon receipt of scrips.
- Carrying out regular reconciliation of assets.
- Ensuring timely resolution of discrepancies and failures.
- Arranging for proper registration of securities.

- **Asset Management Company (AMC)**

The investment manager of a mutual fund is technically known as the 'Asset Management Company', and is appointed by the sponsor. The sponsor manages the affairs of the mutual fund. It is responsible for operating all the schemes of the mutual fund, and can act as the AMC of only one mutual fund.

- **Causes for Poor Performance of Mutual Funds**
  - Expensive securities to be bought as part of portfolio build up of mutual funds.
  - Reduced returns on investments due to superfluous diversification.
  - Poor use of macroeconomic forecast like GNP, disposable income etc.
  - Poor use of investment alternatives.

Drivers for Investment in Mutual Funds

The factors that can incentivize potential customers to commence and gradually increase their investment in mutual funds are,

- **Investment in Mutual Funds is Attractive to Customers Owing to Tax Benefits**

The tax benefits associated with investment in mutual funds is the key drivers for customers. Customers consider mutual funds as a medium of ensuring financial independence and security. Since most mutual fund schemes carry easy liquidity options, customers believe that mutual funds are an avenue of savings thereby eliminating the need for borrowing money in case of financial experiences. Liquidity for the future is deemed to be of utmost importance in making any investment decision.

- **Consistency in Fund Performance and Brand Equity Influence Customers to Make Relevant Selection of Mutual Fund Schemes**

Customers believe that fund performance is necessary but is not a condition to drive their selection of mutual funds by a customer is a function of both the fund house. Customers of the view that the key differentiator at the time of selection of a fund is the positive outlook on performance even if the numbers do not reveal a speculator historic performance, the brand equity of a mutual fund includes factors like perception of the brand capability drawn from its performance in other sectors.

- **Simplification of Processes to Increase the Quantum of Investments**

Customers obtain the requisite confidence in their investment process when distributors explain the concepts and the meaning of key terms used in their investment process when distributors explain the concepts and the meaning of key terms used in mutual fund application forms in simple terms. Further, this reinforces confidence in the distributor's capabilities and quality of advice provided that facilitate the decision process for investment in a mutual fund scheme. Today's customers also feel that a single common application form could be used for all mutual fund investments across multiple mutual fund houses. Simplifying the process for redemption of funds was also identified as means for further increasing investments in mutual funds.

Suggestions for the Development of Mutual Fund Industry

- **Regulation by a Separate Body**

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.

- **Minimum Guaranteed Income**

As the investors are not willing to invest in mutual fund unless a minimum return is assured, it is very essential to create in the mind of the investors that mutual funds are market instruments and associated with market risk hence mutual fund could not offer guaranteed income.

- **Privatization of Mutual Funds**

All the mutual funds are operated in the public sector. Hence private sector may be allowed to float mutual funds, intensifying competition in this industry.

- **Self Regulation**

Due to operations of many mutual fund, there a need for appropriate guidelines for self-regulation in respect of publicity/advertisement and inter scheme transactions within each mutual fund.

- **Demarcation**

As there is no distinction between trustees, sponsors and fund managers, 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.

- **Transparency**

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.

- **Avoiding Bottlenecks**

Infrastructure bottlenecks will have to be removed and banking and postal systems will have to be taken place for growth of mutual funds.

- **Advancement of Technology**

Mutual funds need to take advantage of modern technology like computer and tele-communications to render service to the investors.

Conclusion

With the structural liberalization policies no doubt Indian economy is likely to return to a high grow path in few years. Hence mutual fund organizations are needed to upgrade their skills and technology. Success of mutual fund however would bright depending upon the implementation of suggestions.

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