RESOURCE MOBILISATION BY MUTUAL FUND INDUSTRY IN PRE AND POST LIBERALIZATION ERA

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Abstract
The lesson of history is that you do not get a sustained economic recovery as long as the financial system is in crisis. The financial system plays a significant role in the economic development of a country. Economic reform process of 1991 had a great impact on the financial system of the country leading to the overall development of the Indian economy. Unit Trust of India (UTI) remained the monopolist in the mutual fund industry. It was in 1993 that the Government of India following its New Economic Policy of Liberalization and Privatization opened gates to private sector to launch mutual funds. Today, India's financial system is considered sound and stable as compared to many other Asian countries where the financial market is facing many crises. During last two decade or so, role of Indian mutual fund industry as a significant financial service in the financial market has really been noteworthy. In fact, mutual funds are important segment of financial market of India, especially as a result of the financial liberalization measures taken by Government of India such as opening gates for private and foreign players to set up Fund houses in India. Opening up the industry door to private sector banks and financial institution in 1993 begins a new era in the evolution of Indian Mutual fund industry. Foreign Asset management companies were also allowed to set up their funds. They now play a very significant role in mobilization of resources and channelize these resources by investing them in diversified portfolio of securities. This study is done with the objective of finding the trends in mobilization of resources by mutual fund industry in India and making a comparative analysis between the pre and the post-liberalization period. The results reveal that there has been a massive increase in the net resource mobilization in post liberalization period due to entry of private sector mutual funds.

Keywords: Mutual Fund Industry, Liberalisation, Resource Mobilisation, Private Sector.

Introduction

A mutual fund is a financial intermediary that pools the saving of many investors for collective investment in a diversified portfolio of securities such as stocks, bonds, money market instruments and other securities. Encarta Encyclopedia defines mutual funds as a form of management Investment Company that combines the money of its shareholders and invests those in a wide variety of stocks, bonds and money market instruments. The latter include short-term investments such as government bonds and securities, commercial papers, certificate of deposits, etc. Mutual funds provide the investor with professional management of funds and diversification of investment.

Mutual funds are institutions for providing small investors with avenues of investment in the capital market. It is an investment intermediary, which mobilizes the savings of small investors and invests these savings with expertise in a well balanced and well-diversified portfolio of stocks, thereby, reducing the risk and earning a higher rate of return on investment. The role of Mutual fund industry in India for resource mobilization is very significant. Mutual fund acts as a link between the investor and capital market by mobilizing the funds from many investors and channelizing the same for productive ventures in the Indian economy (Pathak 2011)[1]

The Indian mutual fund industry began with the setting up of Unit Trust of India (UTI) in 1964 by the government of India, which enjoyed a complete monopoly for a long time it was in 1987 public sector banks, and two insurance companies were allowed to set up mutual funds in India. However, the scenario changed with the adoption of new economic policy of Liberalization Privatization and Globalization in 1991 by the government of India, which permitted the private and foreign players to set up mutual funds in India in 1993. The resource mobilization by mutual funds in India has been increasing since their inception in 1964 but after the policy of liberalization, as private players started their operation, there is a massive increase in resource mobilization.

Objectives of the Study

The study is an attempt to examine the trends in mobilization of resources by mutual fund industry in India and making a comparative analysis of resources mobilized by mutual fund industry in the pre and the post-liberalization period.

Review of Literature

Panigrahi (2) examines the impact of capital market reforms on mutual funds. He found that there has been shift in focus from individual investors to institutional investors. The investible resources of mutual funds have increased manifold mainly due to economic reforms and liberalization.

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Sadhak (3) discussed that the mutual funds industry is still nascent stage in India, but has assumed considerable significance in the post-liberalized market economy. He critically examines the recent growth and performance of mutual funds in India, while identifying the constraints in their development. Considering the growing globalization of Indian financial markets and their integration with world markets, he also outlines the conceptual framework and established operational practices of mutual funds in developed countries such as the USA, UK and Japan. In the process, he provides valuable data relating to mutual funds in these countries and in India. Overall, the book focuses on strategic directions for mutual funds with regard to marketing and investment to enable them to cope with the emerging challenges in the fast-changing savings and capital markets in India.

Singh(4) in his book “Mutual Funds in India” covered all aspects of Mutual fund industry like theoretical aspect, regulatory framework of mutual funds in India and mutual funds organized by public sector and private sector. He also gave number of suggestions for the betterment of Indian Mutual fund Industry.

Mendali (5) in his study discussed how the regulatory environment in India acted as a forerunner for the overall growth and stability of the capital market. For smooth functioning, better efficiency, transparency and investor affability, the Government issued a certain set of guidelines for the mutual funds industry. He also discusses the role of Securities and Exchange Board of India (SEBI), the statutory legal body that issues the authorization to mutual funds to do business and how the role of SEBI, has been exemplary in controlling fraudulent practices. He also emphasized the AMFI role in this context.

Mohan (6) in his study analyzed how the Indian mutual fund industry has become one of the fastest growing sectors in the Indian capital and financial markets. He also makes study of the various developments in mutual fund industry in India which has experienced dramatic improvements in quantity as well as quality of product and service offerings in recent years. He also makes study of Mutual fund assets under management which grew by 96%between the end of 1997 and June 2003 and as a result it rose from 8% of GDP to 15%. On the basis of his study he infers that the industry has grown in size and manages total assets of more than $30351 million. He also draws attention towards the fact that the private sector accounts for nearly 91% of the resources mobilized showing their over whelming dominance in the market while the individuals constitute 98.04% of the total number of investors and contribute US $12062 million, which is55.16% of the net assets under management.

Rao and Mishra (7) in their article discussed how in recent times, the Indian Mutual Fund Industry has witnessed several structural and regulatory reforms. The reforms were intended with the objective of facilitating investors in investing in mutual funds, making their investment more safer and yielding higher return. They also discussed how the regulatory frame work were introduced for gold traded funds and the government relaxing norms for Foreign Direct Investments in real estate ventures. They also discussed all important changes that have taken place in the mutual funds industry in recent years. They have carried out a comprehensive study of various changes that has taken place in the mutual funds industry to facilitate investment and protect investor rights.

Lohana (8) in her study examine the growth of mutual fund industry in India during 2009-10 to 2013-14 by analyzing the growth of Asset Under Management, Resource mobilized by Public and Private sector mutual funds, Trends in transaction on stock exchanges by mutual funds, Scheme-wise resource mobilization and Number of schemes and folios. The study revealed that there is impressive growth of the industry and the Industry has passed the nascent stage.

Research Methodology

The study is analytical and descriptive in nature. The whole content is divided into two periods with respect to India’s new economic policy specifically, with respect to mutual fund industry (Pre-Liberalizations and Post-Liberalization). Pre Liberalization period has been taken in this study from 1974-75 to 1992-93 while Post-Liberalization period covers 1993-94 to 2013-14. The study is based on secondary data, which have been collected from RBI annual report on Indian economy. The data is related to Net Resources Mobilized by mutual funds industry, which is sector wise resource mobilization and total resource mobilization by Mutual Fund Industry. The data has been presented in tables and charts. With the help of excel tools and graphical analysis, the researchers have tried to show the trend and progress of mutual fund industry in resource mobilization.

Analysis and Discussion

Mutual Funds Industry in the Pre-Liberalization period

The concept of mutual funds is not new in Indian economy. It was in 1960s that raising new capital for business was a major obstacle. This led the then Finance Minister T.T Krishnamachari to suggest the idea of ‘Unit Trust’ which would mobilize the savings of the community and channelize these savings by investing them in the capital market. The Unit Trust of India

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(UTI), was set up in 1964 under an act of Parliament, as the first mutual fund in India, with its debut scheme named US-64, an open-ended scheme. In1987, with the expansion of the capital market, the need was felt by the government to allow public sector banks and financial institutions to set up mutual funds. During 1987-92 the public sector introduced seven new mutual funds. The total net resource mobilization by mutual funds increased to Rs.130.21 billion including UTI by 1992-93 from Rs.0.71billion in 1974-75.

The Unit Trust of India for 23 years, i.e from its inception till 1986-87, enjoyed complete monopoly of Mutual Funds in India. It was in 1986 with the amendment of Banking Regulations Act by the Government of India, that the public sector commercial banks were allowed to set up mutual funds. With this there was a promotion of mutual funds by commercial banks like State Bank of India which set up mutual funds in June 1987 followed by Canara Bank (Dec 87), Punjab National Bank (Aug 89), Indian Bank (Nov 89), Bank of India (Jun 90) and Bank of Baroda (Oct 92). The insurance companies were also allowed by the Government of India to float mutual funds. Following this, the Life Insurance Corporation (LIC) of India and General Insurance Corporation (GIC) of India set up mutual funds in June 1989 and December 1990 respectively.

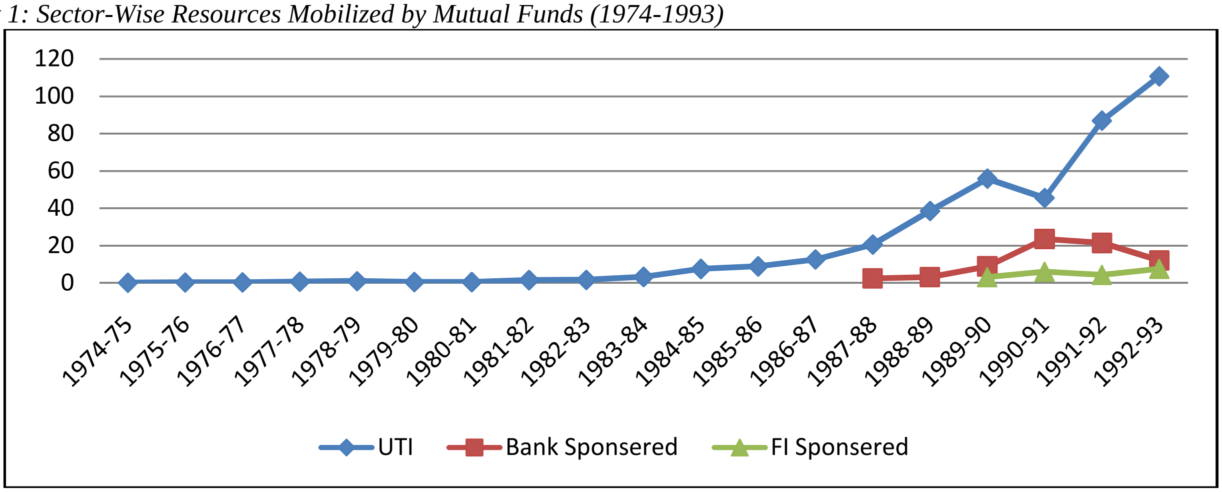
Table 1: Net Resources Mobilized by Mutual Funds (1974 -75 to 1992-93)

(Rs. Billion)

Year (April-March)	UTI	Bank Sponsored	FI Sponsored	Private Sector	Total
1974-75	**0.71**	-	-	-	**0.71**
1975-76	**0.29**	-	-	-	**0.29**
1976-77	**0.35**	-	-	-	**0.35**
1977-78	**0.73**	-	-	-	**0.73**
1978-79	**1.02**	-	-	-	**1.02**
1979-80	**0.58**	-	-	-	**0.58**
1980-81	**0.52**	-	-	-	**0.52**
1981-82	**1.57**	-	-	-	**1.57**
1982-83	**1.67**	-	-	-	**1.67**
1983-84	**3.30**	-	-	-	**3.30**
1984-85	**7.56**	-	-	-	**7.56**
1985-86	**8.92**	-	-	-	**8.92**
1986-87	**12.61**	-	-	-	**12.61**
1987-88	**20.59**	**2.50**	-	-	**23.09**
1988-89	**38.55**	**3.20**	-	-	**41.75**
1989-90	**55.84**	**8.89**	**3.15**	-	**67.88**
1990-91	**45.53**	**23.52**	**6.04**	-	**75.09**
1991-92	**86.85**	**21.40**	**4.28**	-	**112.53**
1992-93	**110.57**	**12.04**	**7.60**	-	**130.21**

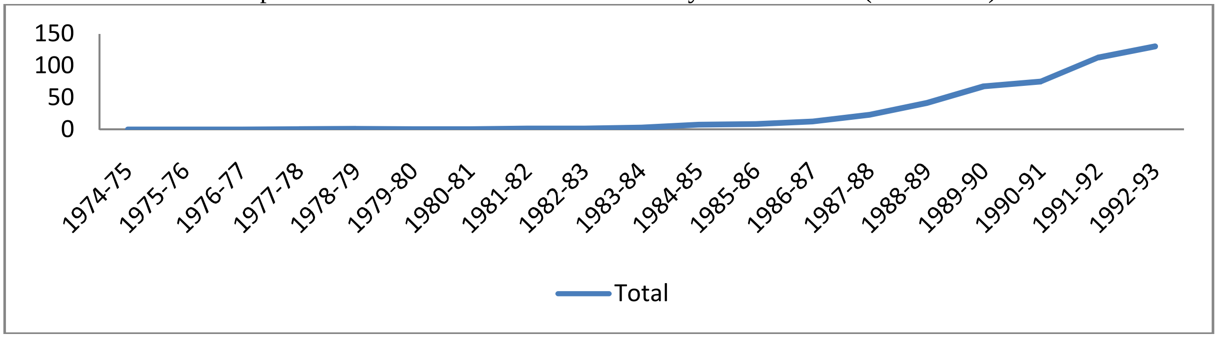
Source: RBI Handbook of Statistics on Indian Economy, 2013-14.

Chart 1: Sector-Wise Resources Mobilized by Mutual Funds (1974-1993)



Source: Drawn and Compiled by Researchers

Graph 02: Total Net Resources Mobilized by Mutual Funds (1974-1993)



Source: Drawn and Compiled by Researchers

The data in table 1 is plotted in the graph shows the resources mobilized by the mutual funds The table 1 shows resources mobilized by the mutual funds in India in the pre liberalization period from 1974-75 to 1992-93. From 1964 till 1986; UTI was the sole player in the mutual fund market in India. The resource mobilization by UTI depicted a swinging picture till 1987. From 1987-88 onwards the resources mobilized by the UTI almost doubles touching a height of almost Rs.110.57 billion in 1992-93. In 1987, the Government of India allowed the banks to sponsor mutual funds; and financial institutions were also allowed to enter the market in the year 1989-90. This led to the unprecedented growth in the resources mobilized by the mutual fund industry in India. It can be seen from the table that as compared to bank sponsored mutual funds, UTI had maintained a slow but stable growth rate in fund mobilization. Bank sponsored mutual fund had a random increase in fund mobilization in 1990-91 to Rs.23.52 billion but fell down to Rs.21.40 billion in the very next year and ultimately settled to Rs.12.04 billion in the year 1992-93. The FI sponsored mutual funds came into existence in 1989-90 and in the same year the resources mobilized by them were Rs.3.15 billion and they showed a steady growth pattern to Rs.7.60 billion in 1992-93.
Comparing the mutual funds floated by all these sectors in the pre-liberalization period; it can be said that UTI had performed better than the bank sponsored and FI sponsored mutual funds throughout the entire period. The table shows that there is no operation of the private sector at all and the entire market was shared by UTI and the public sector, i.e. Bank sponsored and FI sponsored mutual funds.

Mutual Funds industry in the Post-Liberalization period
The mutual funds industry depicted a strong growth after the liberalization policy adopted by the Government of India as this led to the entry of private players as well as foreign players to set up fund houses in 1993. The entry of private sector mutual funds along with favourable regulatory reforms and strengthening domestic economic environment helped the Indian Mutual Fund industry to grow at a rapid rate. For ensuring efficient and smooth functioning of the mutual funds, certain guidelines were issued by the government which was supposed to be followed by the companies dealing in the mutual funds industry. In March 1991 the Government handed over the function of regulating Mutual Funds to Securities and Exchange Board of India (SEBI). In the year 1992, Securities and Exchange Board of India (SEBI) Act was passed. The objective of SEBI is to protect the interest of investors. SEBI notified first regulations for the mutual funds in 1993 and the regulations were fully revised in 1996. The industry now functions under SEBI (Mutual fund) Regulations 1996.

It was felt that the mutual funds industry in the pre-liberalization period had failed to meet up the expectations of the common investors; in terms of promptness in grievance redressal, timely delivery of dividend warrants and unit certificates, adequate and timely disclosure of information, etc. These were the main drawbacks of the mutual funds industry that provided a basis for opening the gates to the private sector mutual funds to participate. They were allowed to enter with the expectation of overcoming the shortcomings of the public sector, by introducing modern technology driven investor service and delivery system and the provision of disclosure of Net Asset Value (NAV).

Table 2: Net Resources Mobilized by Mutual Funds (1993-94 to 2013-14)

(Rs. Billion)

Year	UTI	Bank Sponsored	FI Sponsored	Private Sector	Total
1993-94	92.97	1.48	2.38	15.60	112.43
1994-95	86.11	7.66	5.76	13.22	112.75
1995-96	-63.14	1.13	2.35	1.33	-58.33
1996-97	-30.43	0.07	1.37	8.64	-20.35

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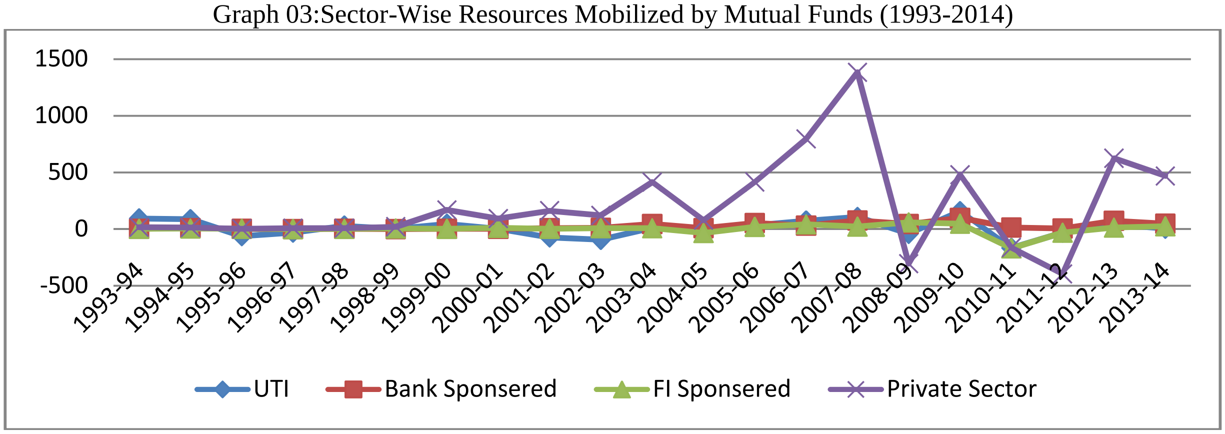
1997-98	28.75	2.37	2.04	7.49	40.65
1998-99	1.70	-0.89	5.47	20.67	26.95
1999-00	45.48	3.36	2.96	169.38	221.18
2001-01	3.22	2.49	12.73	92.92	111.36
2001-02	-72.84	8.63	4.06	161.34	101.19
2002-03	-94.34	10.33	8.61	121.22	45.82
2003-04	10.50	45.26	7.87	415.10	478.73
2004-05	-24.67	7.06	-33.84	79.33	27.88
2005-06	34.24	53.65	21.12	415.81	524.82
2006-07	73.26	30.33	42.26	794.77	940.62
2007-08	106.78	75.97	21.78	1382.24	1568.77
2008-09	-41.12	44.89	59.54	-305.38	-242.08
2009-10	156.53	98.55	48.71	479.68	783.47
2010-11	-166.36	13.04	-169.88	-162.81	-486.00
2011-12	-31.79	3.89	-30.98	-395.25	-454.13
2012-13	39.38	72.32	13.12	624.57	749.38
2013-14	4.01	48.44	25.72	467.90	546.07

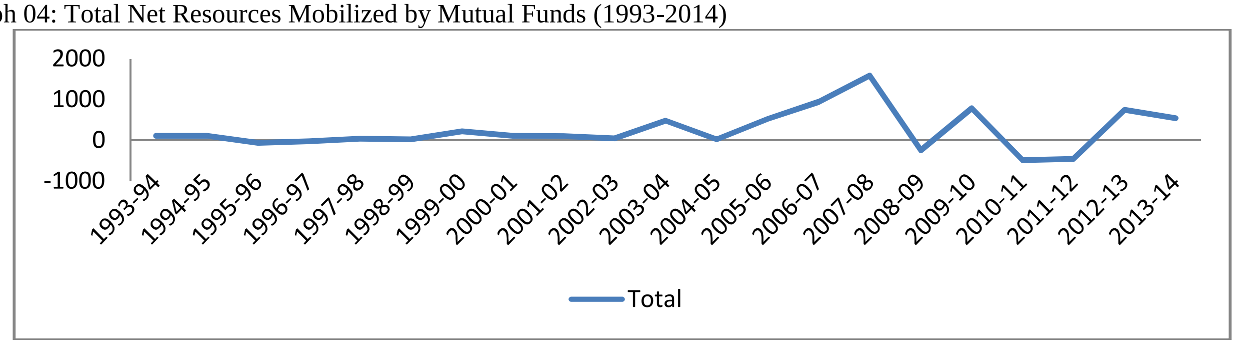
Source: RBI Handbook of Statistics on Indian Economy, 2013-14.

Graph 03:Sector-Wise Resources Mobilized by Mutual Funds (1993-2014)



Source: Drawn and Compiled by Researchers

Graph 04: Total Net Resources Mobilized by Mutual Funds (1993-2014)



Source: Drawn and Complied by Researchers

The data in table 2 is plotted in the graph shows the resources mobilized by the mutual funds in the post liberalization period from 1993-94 to 2013-14. In the initial years, the private sector registered a strong opening in the mutual fund sector. In the very first year 1993-94, it captured almost 13.88% of the total resources mobilized. Bank sponsored and FI sponsored mutual funds showed a decline but UTI was still in the lead with net resource mobilization of Rs.92.97 billion; due to its long standing and the tax benefit schemes. In1995-97 UTI and other public sector mutual fund started losing control over the market as against private sector mutual funds in resource mobilization. Then there was a period of recovery for the UTI and other public sector mutual funds. In the late 1990s and early 2000, due to relatively poor performance of the domestic stock markets and withdrawal of tax benefits under Section 80M of the Income Tax Act, the industry experienced a downfall.

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Besides this in 1990s some mutual funds offered assured returns schemes which enabled them to mobilize large resources. But many of them failed to meet their obligation of redemption related to such schemes. In some cases, the sponsors pumped enough additional capital to maintain their survival in the business. This led the mutual funds to discontinue the issuance of assured returns schemes which had a negative impact on the resource mobilization by the mutual funds.

The global financial crisis of 2008 caused a sudden downfall for the industry as a whole. The private sector as well as the UTI depicted a negative growth of Rs.-305.38 billion and Rs.-41.12 billion, respectively in 2008-09. However the other public sector had a positive growth but because they have only a small share of the industry they failed to contribute much and therefore the industry faced a downfall in its overall performance.

In 2010, UTI made a little recovery but still failed to match up its earlier performance level and lost its share in the market with resource mobilization of only Rs.4.01 billion in 2013-14. On the other hand, the private sector somehow managed to mobilize resources of Rs.467.90 billion in 2013-14 after a few years of negative growth. The FI sponsored mutual funds also witnessed a downfall but somehow managed to have resource mobilization of Rs.25.72 billion in 2013-14. In conclusion, the private sector is shown the most volatile in nature while the financial institutions and UTI showing its behaviour almost in a same manner and in stable form. The most stable sector is the bank sponsored sector where it shows a constancy feature in resource mobilization. This shows the peoples more reliance to invest in this sector.

Conclusion

It is found in our study that the performance of mutual fund industry in terms resource mobilization in pre-reform period was insignificant. However, it is clearly witnessed that the sign of resource mobilization is seen in banks and financial institutions sectors since 1987 as it is called as the first phase of the reforms. Therefore, it can be said that the effect of reforms or institutional arrangement then in this regard is found as catalyst in terms of resource mobilization. Nonetheless, the meaningful result is found in post liberalization period as the entry of private and foreign players in this industry allowed. This led to improvement in overall resource mobilization. The outcome is found in significant amount only at initial days after reforms. After a few years, there was a sudden decline in their performance due to various reason stated above. Again, it picked up in coming years and hence it has shown fluctuations in terms of resource mobilization but grew continuously. This impressive growth in the Indian Mutual Fund industry in recent years can be attributed to various factors such as rising household savings, comprehensive regulatory framework, liberalization and the privatization of the industry etc. The industry witnessed the entry of many private sector mutual funds with new fund offerings in the last few years. To name a few major private sector mutual funds are Prudential ICICI Mutual Fund, HDFC Mutual Fund, Birla Sun Life Mutual Fund, Reliance Mutual Fund, etc. Moreover, the industry has also managed to tap overseas markets, offering a variety of options of investment to overseas investors also. While the Indian Mutual Fund industry has come a long way since its inception, there are certain areas of concerns which need to be addressed in order to grow at a rapid pace, namely; low level of customer awareness, inadequate reach of funds/ distributors to retail investors, limited innovation in product offering, multiple regulatory framework, etc. Furthermore, with the entry of global players, competition for the domestic mutual funds is also expected to increase. Therefore, SEBI along with the RBI are required to look into these issues and work up for a solution for the same to make the industry grow at a faster rate and become more efficient in its operations.

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