

Indian Mutual Fund Industry: Current State And Future Outlook

** Shivani Gupta*

INTRODUCTION

With progressive liberalization of economic policies, there has been a rapid growth of capital market, money market and financial services industry including merchant banking, leasing and venture capital. Consistent with this evolution of the financial sector, the mutual fund industry has also come to occupy an important place. The Indian mutual funds industry is witnessing a rapid growth as a result of infrastructural development, increase in personal financial assets, and rise in foreign participation. With the growing risk appetite, rising income, and increasing awareness, mutual funds in India are becoming a preferred investment option compared to other investment vehicles like Fixed Deposits (FDs) and postal savings that are considered safe, but give comparatively low returns.

India has been amongst the fastest growing markets for mutual funds since 2004 with a CAGR of 29% in a five year period from 2004-2008 as against global average of 4%. Low share of global assets under management, low penetration levels, limited share of mutual funds in the household financial savings and the climbing growth rates in the last few years that are amongst the highest in the world, all point to the future potential of the Indian mutual fund industry.

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. Small investors face a lot of problems in the share market, limited resources, lack of professional advice, lack of information etc. Mutual funds have come as a much needed help to these investors. It is a special type of institutional device or an investment vehicle through which the investors pool their savings, which are to be invested under the guidance of a team of experts in wide variety of portfolios of corporate securities in such a way, so as to minimize risk, while ensuring safety and steady return on investment.

ORIGIN OF MUTUAL FUND INDUSTRY IN INDIA

The foreign and colonial government Trust of London of 1868 is considered to be the fore-runner of the modern concept of mutual funds. The USA is, however, considered to be the mecca of modern mutual funds. By the early - 1930s quite a large number of close - ended mutual funds were in operation in the U.S.A. Much later, in 1954, the committee on finance for the private sector recommended mobilization of savings of the middle class investors through unit trusts. Finally in July 1964, the concept took root in India when Unit Trust of India was set up with the twin objective of mobilizing household savings and investing the funds in the capital market for industrial growth. Household sector accounted for about 80 percent of nation's savings and only about one third of such savings was available to the corporate sector. It was felt that UTI could be an effective vehicle for channelizing progressively larger shares of household savings to productive investments in the corporate sector.

The process of economic liberalization in the eighties not only brought in dramatic changes in the environment for Indian industries, corporate sector and the capital market, but also led to the emergence of demand for newer financial services such as issue management, corporate counseling, capital restructuring and loan syndication. After two decades of UTI monopoly, recently, some other public sector organizations like LIC (1989), GIC (1991), SBI (1987), Canara Bank (1987), Indian Bank (1990), Bank of India (1990), Punjab National Bank (1990) have been permitted to set up mutual funds.

REASONS FOR THE GROWING IMPORTANCE OF MUTUAL FUNDS

Now-a-days, mutual funds are gaining popularity due to the following reasons :

I. With the emphasis on increase in domestic savings and improvement in deployment of investment through markets,

**Assistant Professor, PG Deptt. Of Commerce, Govt. College (Affiliated to Panjab University), Chandigarh, Punjab.
E-mail : shivuamar999@gmail.com*

the need and scope for mutual fund operations has increased tremendously. The basic purpose of reforms in the financial sector was to enhance the generation of domestic resources by reducing the dependence on outside funds. This calls for a market based institution, which can tap the vast potential of domestic savings and channelize them for profitable investments. Mutual funds are not only best suited for the purpose, but are also capable of meeting this challenge.

2. An ordinary investor, who applies for a share in a public issue of any company is not assured of any firm allotment. But mutual funds, who subscribe to the capital issue made by companies get firm allotment of shares. Mutual fund later sell these shares in the same market and to the promoters of the company at a much higher price. Hence, mutual funds create confidence among investors.

3. The psyche of the typical Indian investor has been summed up by Mr. S.A. Dave, Chairman of UTI, in three words; **Yield, Liquidity and Security**. The mutual funds, being set up in the public sector, have given the impression of being as safe a conduit for investment as bank deposits. Besides, the assured returns promised by them have a great appeal for the typical Indian investor.

4. As mutual funds are managed by professionals, they are considered to have a better knowledge of market behaviours. Besides, they bring a certain competence to their job. They also maximize gains by proper selection and timing of investment.

5. Another important thing is that the dividends and capital gains are reinvested automatically in mutual funds and hence, are not frittered away. The automatic reinvestment feature of a mutual fund is a form of forced saving and can make a big difference in the long run.

6. The mutual fund operation provides a reasonable protection to investors. Besides, presently, all schemes of mutual funds provide tax relief under Section 80 L of the Income Tax Act and in addition, some schemes provide tax relief under Section 88 of the Income Tax Act, which leads to the growth of importance of mutual funds in the minds of the investors.

7. As mutual funds create awareness among urban and rural middle class people about the benefits of investment in capital market, through profitable and safe avenues, mutual funds could be able to make up a large amount of the surplus funds available with these people.

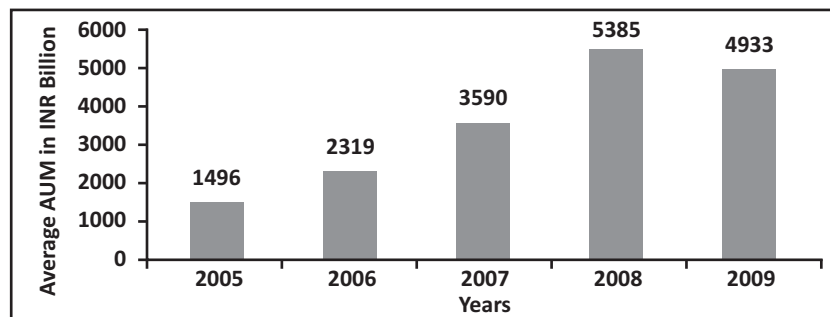
8. The mutual funds attract foreign capital flow in the country and secure profitable investment avenues abroad for domestic savings through the opening of offshore funds in various foreign investors. Lastly, another no chart thing is that mutual funds are controlled and regulated by SEBI and hence, are considered safe.

CURRENT STATE OF MUTUAL FUND INDUSTRY

The Indian mutual fund industry has evolved from a single player monopoly in 1964 to a fast growing, competitive market on the back of a strong regulatory framework. Under this section, various aspects relating to mutual funds are discussed to analyze the current state of mutual fund industry in India.

a) Assets Under Management (AUM) Growth : The Assets under Management (AUM) have grown at a rapid pace over the past few years, at a CAGR of 35 percent for the five-year period from 31 March 2005 to 31 March 2009. Over the 10-year period, from 1999 to 2009 encompassing varied economic cycles, the industry grew at 22 percent CAGR. This growth was despite of two falls in the AUM. The first being after the year 2001 due to the dotcom bubble burst, and the second in 2008 consequent to the global economic crisis.

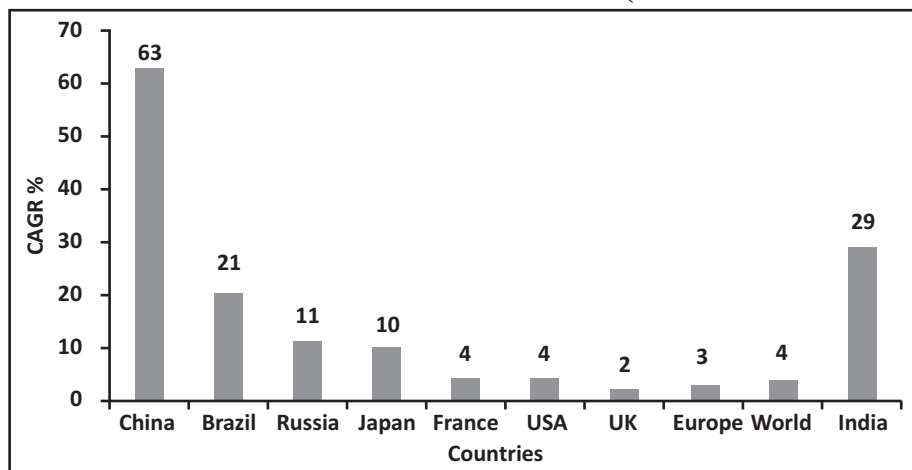
Chart 1 : Growth in AUM in Mutual Fund Industry - Average AUM in INR Billion



Source:
AMFI Data as on
March 31 each year

b) AUM Base And Growth Relative To The Global Industry : India has been amongst the fastest growing markets for mutual funds since 2004; in the five-year period from 2004 to 2008 (as of December), the Indian mutual fund industry grew at 29 percent CAGR as against the global average of 4 percent. Over this period, the mutual fund industry in mature markets likes the US and France grew at 4 percent, while some of the emerging markets viz. China and Brazil exceeded the growth witnessed in the Indian market.

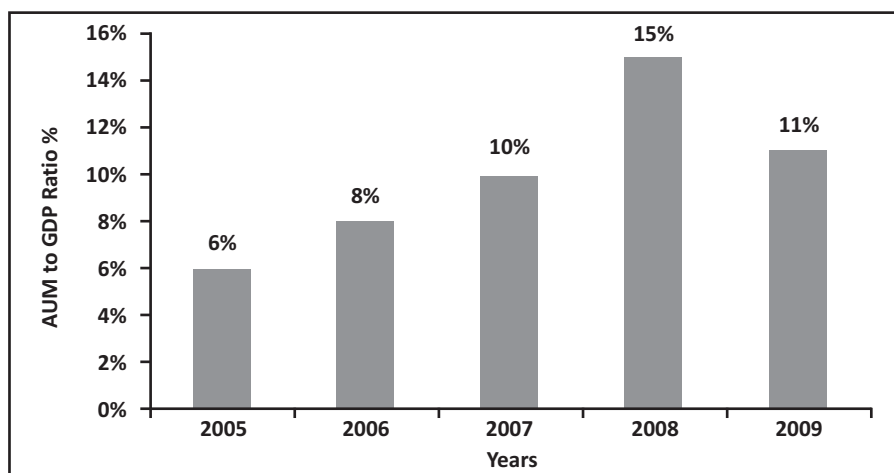
Chart 2: AUM Growth Rate in Selected Countries (CAGR % for 2004-2008)



Source: ICI Factbook 2009, AMFI Data

c) AUM to GDP Ratio : The ratio of AUM to India's GDP, gradually increased from 6 percent in 2005 to 11 percent in 2009. Despite this, however, this continues to be significantly lower than the ratio in developed countries, where the AUM accounts for 20-70 percent of the GDP.

Chart 3: AUM to GDP Ratio in India

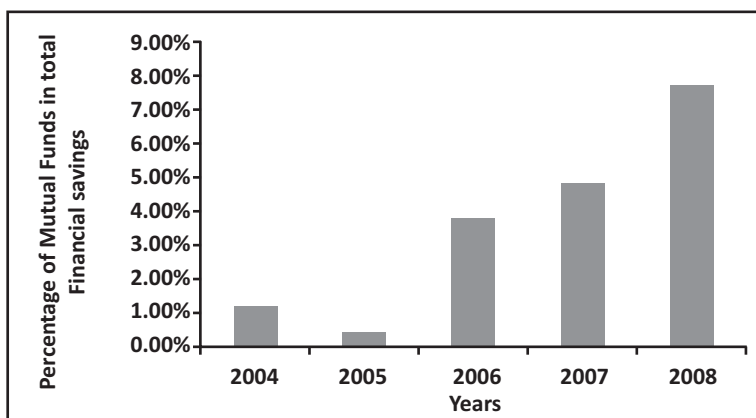


Source: AMFI Data, CSO as of 31 December each year

d) Share of Mutual Funds in Household Financial Savings : Investment in mutual funds in India comprised 7.7% of the gross household financial savings in FY 2008, a significant increase from 1.2 percent in FY 2004. The households in India continue to hold 55% of their savings in fixed deposits with banks, 18 percent in insurance and 10 % in currency as of FY 2008.

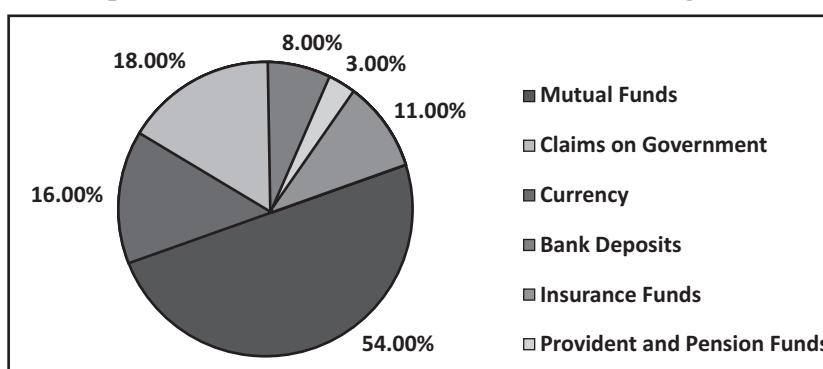
e) Profitability : The operating expenses, as a percentage of AUM, rose from 41 bps in FY 2004 to 113 bps in FY 2008 largely due to the increased spend on marketing, distribution and administrative expenses impacting AMC margins. Rising cost pressures and decline in profitability have impacted the entry plans of global players eyeing an Indian presence. The growth in AUM accompanied by a decline in profitability necessitates an analysis of the underlying characteristics that have a bearing on the growth and profitability of the Indian mutual fund industry.

Chart 4: Share Of Mutual Funds In Household Financial Savings In India



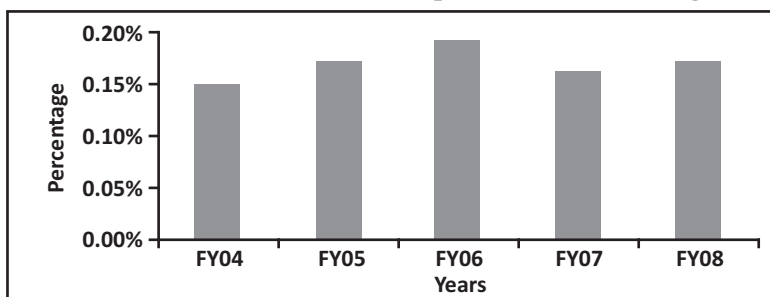
Source: RBI Data as of 31 March every year

Chart 5: Composition of Household's Gross Financial Savings In India In FY 2008



Source: RBI Data

Chart 6: Administrative & Other Expenses as a Percentage of AUM

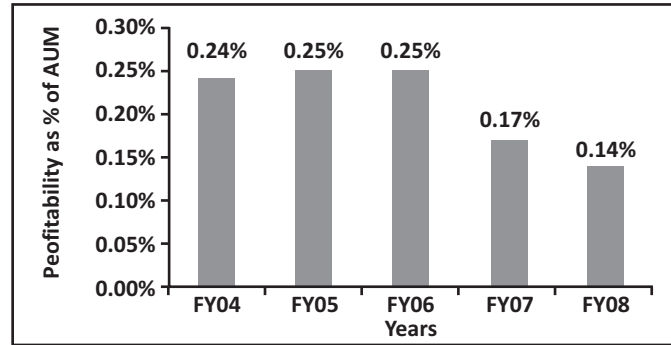


Source: KPMG analysis based on public financials of AMCs

AMCs have successfully been using outsourced service providers such as custodians, Registrar and Transfer Agents (R&T) and more recently, fund accountants. Functions that have been outsourced are custody services, fund services, registrar and transfer services aimed at investor servicing and cash management. Managing costs and ensuring investor satisfaction continue to be the key goals for all mutual funds today.

f) Customers : The Indian mutual fund industry has significantly high ownership from the institutional investors. Retail investors comprising of 96.86% in number terms held approximately 37% of the total industry AUM as at the end of March 2008. Out of a total population of 1.15 billion, the total number of mutual fund investor accounts in India as of 31 March 2008 was 42 million. As per the Invest India Incomes and Savings Survey 2007 of individual wage earners in the age group 18 to 59 years conducted by IIMS Dataworks, only 1.6% invested in mutual funds. 90% of the savers interviewed were not aware of mutual funds or of investing in mutual funds through a Systematic Investment Plan (SIP). The mutual fund penetration among the paid Indian workforce with an annual household income of less

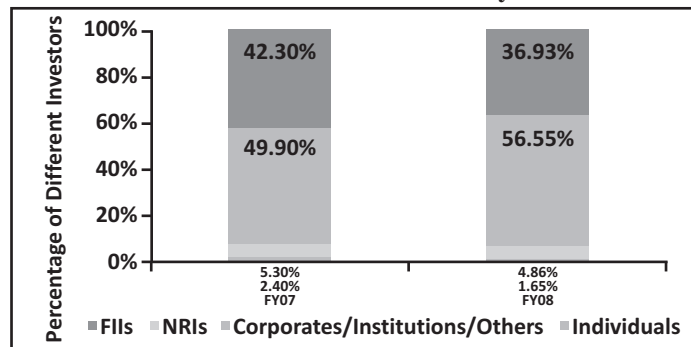
Chart 7: Industry Profitability As A Percentage Of AUM



Source: KPMG analysis based on public financials of AMCs

than INR 90,000 was 0.1%. In the last few years, the retail investor participation, in particular, in Tier 2 and Tier 3 towns, has been on the rise aided by the buoyant equity markets.

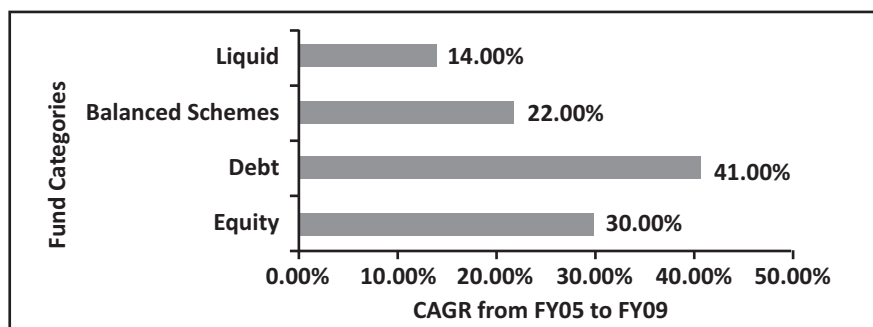
Chart 8: Indian Mutual Fund Industry: Investor Mix



Source: SEBI Data

g) Products: The Indian mutual fund industry is in a relatively nascent stage in terms of its product offerings, and tends to compete with products offered by the Government providing fixed guaranteed returns. As of December 2008, the total number of mutual fund schemes was 1,002 in comparison to 10,349 funds in the US. Debt products dominate the product mix and comprise of 49% of the total industry AUM as of FY 2009, while the equity and liquid funds comprise of 26% and 22% respectively. Open-ended funds comprise 99% of the total industry AUM as of March 2009. New product categories like Exchange Traded Funds (ETFs), Gold ETFs, Capital Protection and Overseas Funds have gradually been gaining popularity. As of March 2009, India had a total of 16 ETFs.

Chart 9: Growth Rate (5 Year CAGR) across Fund Categories

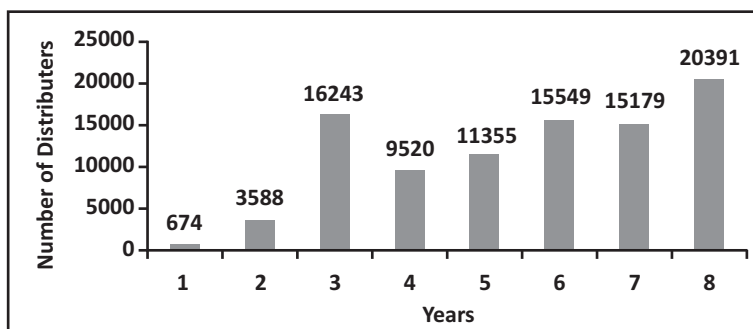


Source: AMFI Data

h) Distribution Channels: As of March 2009, the mutual fund industry had 92,499 registered distributors as compared to approximately 2.5 million insurance agents. The Independent Financial Advisors (IFAs) or Individual distributors, corporate employees and corporates comprise of 73, 21 and 6 percent respectively of the total distributor base. Banks in general, foreign banks and the leading new private sector banks in particular, dominate the mutual fund distribution

with over 30 percent AUM share. National and Regional Distributors (including broker dealers) together with IFAs comprised of 57 percent of the total AUM as of 2007. The public sector banks are gradually enhancing focus on mutual fund distribution to boost their fee income.

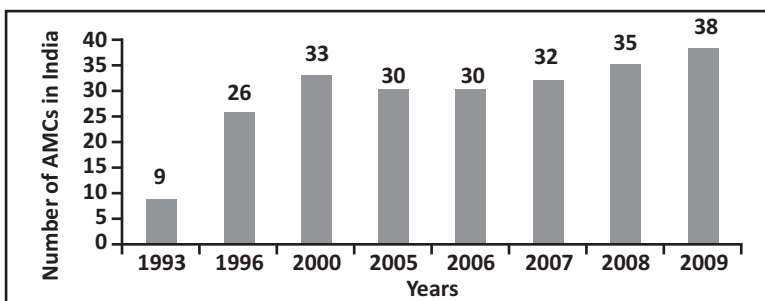
Chart 10: Number of Distributors Registered Annually by AMFI



Source: AMFI Data

i) Industry Structure : The Indian mutual fund industry currently consists of 38 players that have been given regulatory approval by SEBI. The industry has witnessed a shift and has changed drastically in favour of private sector players, as the number of public sector players reduced from 11 in 2001 to 5 in 2009.

Chart 11: Growth in the Number of AMCs in India

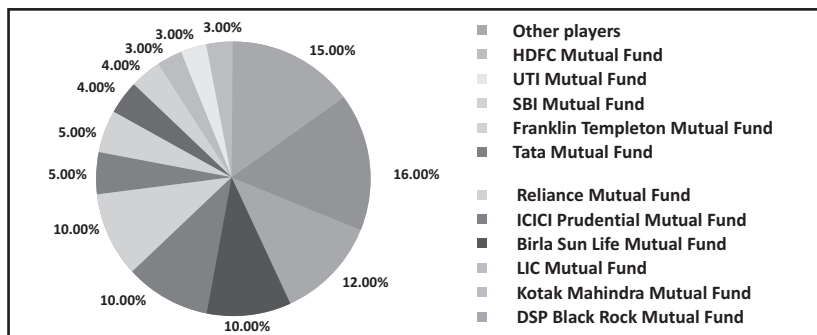


Source: AMFI Data

Public sector mutual funds comprised of 21 percent of the AUM in 2009 as against 72 percent AUM share in 2001.

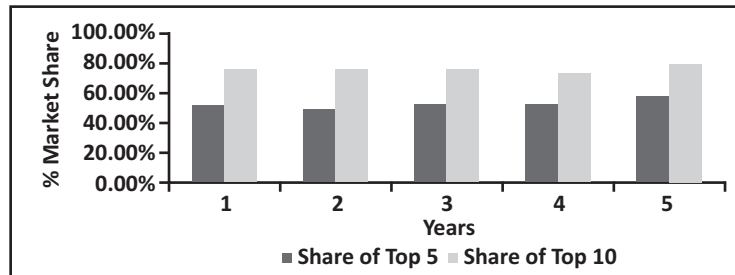
The industry concentration has been stagnant in the four-year period from 2005 to 2008; the top 5 players comprising 50-52 percent of industry AUM. However, as of March 2009, the share of Top 5 players increased to 58 percent, as against 38 percent in the US. The AUM share of the Top 10 players has consistently been in the vicinity of 75 percent.

Chart 12: Market Share of Players as of March 2009



Source: AMFI Data

Chart 13: Market Share Trend of Top 5 and Top 10 Players in India in Mutual Fund Industry

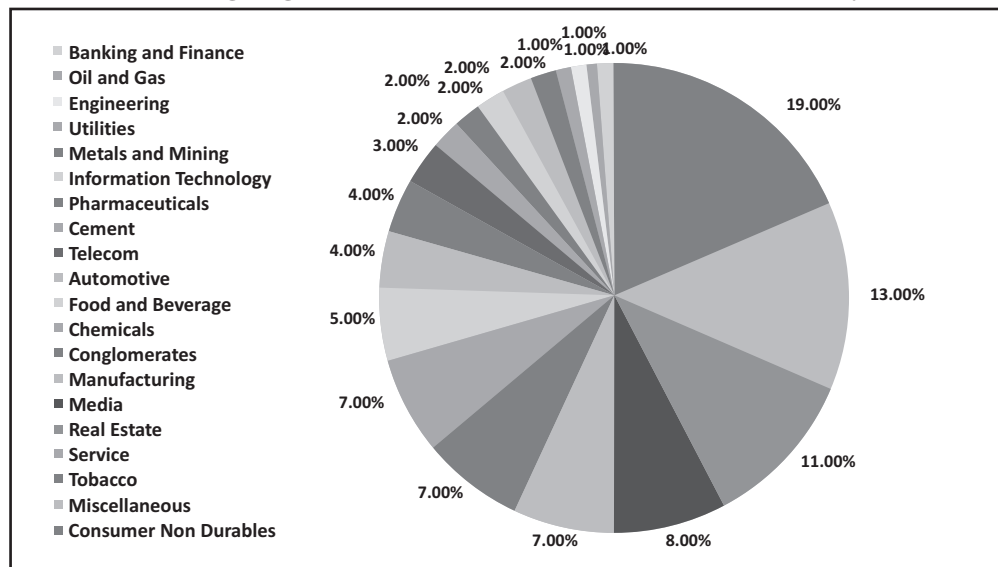


Source: KPMG Analysis based on AMFI Data

Although the Indian market has relatively low entry barriers - given the low minimum net worth required to venture into mutual fund business, existence of a strong local brand and a wide and deep distribution footprint are the key differentiators.

j) Mutual Fund Industry: Weightage to Various Sectors : The highest Weightage in September, 2009 was of banking and finance sector in mutual fund industry. The other sectors have comparatively low Weightage.

Chart 14: Weightage to Various Sectors in Mutual Fund Industry in India



Source: Abchlor Investment Advisors P Ltd.- Mutual Fund Report September 2009

PROBLEMS ASSOCIATED WITH THE MUTUAL FUND INDUSTRY

There are certain problems associated with mutual funds, which are discussed below:

1. The mutual funds are externally managed. They do not have employees of their own. Also, there is no specific law to supervise the mutual funds in India. There are multiple regulations. While UTI is governed by its own regulations, the banks are supervised by Reserve Bank of India, the Central Government and insurance company mutual regulations funds are regulated by Central Government.
2. At present, the investors in India prefer to invest in mutual fund as a substitute of fixed deposits in Banks. About 75 percent of the investors are not willing to invest in mutual funds unless there was a promise of a minimum return.
3. Sponsorship of mutual funds has a bearing on the integrity and efficiency of fund management, which are keys to establishing investor's confidence. So far, only public sector sponsorship or ownership of mutual fund organizations had taken care of this need.
4. Unrestrained fund rising by schemes without adequate supply of scrips can create severe imbalance in the market and exacerbate the distortions.
5. Many small companies did very well last year, by schemes without adequate imbalance in the market but mutual funds cannot reap their benefits because they are not allowed to invest in smaller companies. Not only this, a mutual

fund is allowed to hold only a fixed maximum percentage of shares in a particular industry.

6. The mutual funds in India are formed as trusts. As there is no distinction made between sponsors, trustees and fund managers, the trustees play the roll of fund managers.

7. The increase in the number of mutual funds and various schemes have increased competition. Hence, it has been remarked by a Senior Broker, “*mutual funds are too busy trying to race against each other*”. As a result, they lose their stabilizing factor in the market.

8. While UTI publishes details of accounts of their investments, mutual funds have not published any profit and loss Account and balance sheet even after its operation.

9. The mutual funds have eroded the financial clout of institutions in the stock market for which cross transaction between mutual funds and financial institutions are not only allowing speculators to manipulate price, but also providing cash, leading to the distortion of balanced growth of market.

10. Mutual funds are very poor in standard of efficiency in investors' service; such as despatch of certificates, repurchase and attending to inquiries lead to the deterioration of interest of the investors towards mutual funds.

11. Transparency is another area in mutual funds, which was neglected till recently. Investors have the right to know and asset management companies have an obligation to inform investors where and how their money has been deployed. But investors are deprived of getting the information.

CHALLENGES AND ISSUES

Low customer awareness levels and financial literacy pose the biggest challenge to channelizing household savings into mutual funds. Further, fund houses have shown limited focus on increasing retail penetration and building retail AUM. Most AMCs and distributors have a limited focus beyond the top 20 cities that is manifested in limited distribution channels and investor servicing. The Indian mutual fund industry has largely been product-led and not sufficiently customer focused with limited focus being accorded by players to innovation and new product development.

1. Low Levels of Customer Awareness: Low customer awareness levels and financial literacy pose the biggest challenge to channelizing household savings into mutual funds. IIMS Dataworks data released in 2007 establishes that low awareness levels among retail investors has a direct bearing on the low mutual fund off take in the retail segment. A large majority of retail investors lack an understanding of risk-return, asset allocation and portfolio diversification concepts. Low awareness of SIPs in India has resulted in a majority of the customers investing in a lump sum manner.

2. Limited Focus On Increasing Retail Penetration: The Indian mutual fund industry had limited focus on building retail AUM and has only recently stepped up efforts to augment branch presence in Tier 2 and Tier 3 towns. Players have historically garnered AUM by targeting the institutional segment that comprises of 63 percent AUM share as in March 2008. Large ticket size, tax arbitrage available to corporates on investing in money market mutual funds, easy accessibility to institutional customers concentrated in Tier 1 cities are the factors instrumental in mutual fund houses focusing on the institutional segment.

3. Limited Focus Beyond The Top 20 Cities: The mutual fund industry continues to have limited penetration beyond the top 20 cities. Cities beyond Top 20 only comprise approximately of 10 percent of the industry AUM as per industry practitioners. The retail population residing in Tier 2 and Tier 3 towns, even if aware and willing, are unable to invest in mutual funds owing to limited access to Chart distribution channels and investor servicing. The distribution network of most mutual fund houses is largely focused on the Top 20 cities, given the high cost associated with deeper penetration into Tier 2 and Tier 3 towns.

4. Limited Innovation In Product Offerings: The Indian mutual fund industry has largely been product-led and not sufficiently customer focused. The popularity of NFOs triggered a proliferation of schemes with a large number of non-differentiated products. The industry has had a limited focus on innovation and new product development, thereby, catering to the limited needs of the customer. Products that cater specifically to customer life stage needs such as education, marriage, and housing are yet to find their way in the Indian market.

Despite the regulations for Real Estate Mutual Funds (REMF) being introduced in 2008, the market is still awaiting the first REMF launch. Further, relatively nascent product categories viz. multi-manager funds that are among the most popular hybrid funds globally have not grown in India owing to the prevailing taxation structure.

The Indian mutual fund industry offers limited investment options viz. capital guarantee products for the Indian

investors, a large majority of whom are risk averse. The Indian market is still to witness the launch of green funds, socially responsible investments, fund of hedge funds, enhanced money market funds, renewable and energy and climate change funds.

5. Limited Flexibility In Fees And Pricing Structures: The fee structure in the Indian mutual fund industry enjoys little flexibility unlike developed markets, where the level of management fees depends on a variety of factors such as the investment objective of the fund, fund assets, fund performance, the nature and number of services that a fund offers. While the expenses have continuously risen, the management fee levels have remained stagnant.

Distributors are compensated for their services through a fixed charge in the form of entry load and additional fees as considered appropriate by the AMC. Regardless of the quality of advice and service provided, the commission payable by the mutual fund customer to the distributors is fixed.

6. Limited Customer Engagement: Mutual fund distributors have been facing questions on their competence, degree of engagement with customer and the value provided to the customer. Both the distributors and the mutual fund houses have exhibited limited interest in continuously engaging with customers post closure of the sale as the commissions and incentives had been largely in the form of upfront fees from product sales (although trail commissions have also been paid in limited instances regardless of the service rendered). As a result of the limited engagement, there have been rising instances of mis-selling to customers.

7. Limited Focus Of The Public Sector Network On Distribution Of Mutual Funds: Public sector banks with a large captive customer base, significant reach beyond the Top 20 cities in semi-urban and rural areas, and the potential to build the retail investor base, have so far played a very limited role in mutual funds distribution. The credibility enjoyed by the Nationalized Banks, Regional Rural Banks and Cooperative Banks in the rural hinterland has not been fully leveraged to target the retail segment.

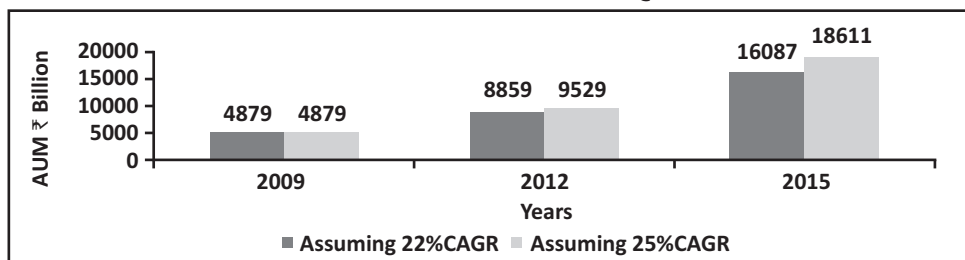
The India Post network operating the largest postal network in the world, majority of which is in rural areas, is stated to have 250 post offices selling mutual funds of five AMCs only; further, most of the post offices selling mutual funds are located in Tier 1 and Tier 2 cities, which are already been catered to, by national level and other distributors.

8. Multiple Regulatory Frameworks Governing Financial Services Sector Verticals : The regulatory and compliance requirements vary across verticals within the financial services sector - specifically mutual funds, insurance and pension funds- each of which are governed by an independent regulatory framework and are competing for the same share of the customer's wallet. The mutual fund industry lacks a level playing field in comparison with other verticals within the financial services sector.

FUTURE OUTLOOK

In the event of a quick economic revival and positive reinforcement of growth drivers identified, KPMG in India is of the view that the Indian mutual fund industry may grow at the rate of 22-25 percent in the period from 2010 to 2015, resulting in AUM of INR 16,000 to 18,000 billion in 2015.

Chart 15: Projected AUM Growth from 2010 to 2015
Scenario 1: Favourable Growth Scenario with Quick Economic Revival



Source: KPMG Analysis

KEY GROWTH DRIVERS FOR THIS SCENARIO INCLUDE

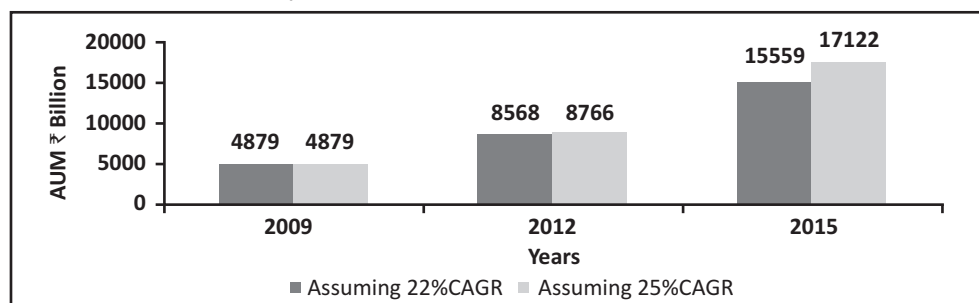
1. Increased retail investor participation with a preference for mutual funds over other asset classes perceived to be more risky. This could result in the fulfilment of growing financial aspirations, enabled by rising disposable incomes and increased financial savings

2. Innovations in distribution driven by increase in the number of certified IFAs and banks selling mutual funds focusing on Tier 2 and Tier 3 towns.

3. Increase in institutional participation triggered by rising corporate revenues with increased economic activity.

In the event of a relatively slower economic revival resulting in the identified growth drivers not reaching their full potential, KPMG in India is of the view that the Indian mutual fund industry may grow in the range of 15-18 percent in the period from 2010 to 2015, resulting in AUM of INR 15,000 to 17,000 billion in 2015.

Chart 16: Projected AUM Growth from 2010 to 2015
Scenario 2: Relatively Lower Growth Scenario with Slow Economic Revival



Source: KPMG Analysis

KEY FACTORS DRIVING THE GROWTH INSPITE OF THE SLOW REVIVAL OF THE ECONOMY INCLUDE

1. Incremental increase in retail investor participation owing to limited focus beyond Tier 2 towns and limited efforts to draw risk averse customers of traditional products under the fold of mutual funds.

2. Tightening of liquidity leading to better yields on instruments liquid funds invest in, thereby driving investments from the institutional investors.

Industry profitability is expected to gradually reduce as revenues of AMCs shrink due to focus on low margin products to attract risk averse investors, and also as operating costs escalate due to the focus on penetrating retail population beyond Tier 2 cities. Decline in investment management fees is expected as risk averse customers prefer investments in debt products.

3. Increase in distribution costs as players attempt to set up their own branch presence in smaller towns. Existing players are likely to review business strategy and explore exit/ mergers in case of no significant competitive advantage, thereby resulting in industry consolidation. Competition is expected to intensify further with the entry of global players, who are facing stagnant growth in global markets. This is expected to result in a fall in market shares of the Top 10 players and result in a further squeeze on margins. Co-existence of large players with diversified portfolios and some niche plays is expected.

4. Product innovation is expected to be limited. High margin products such as equity and select debt products are likely to continue to contribute a significant share of industry AUM. Flexibility in product pricing by AMCs is expected to be permitted based on the type of services offered. Emerging product categories such as ETFs, Multi manager funds, REMFs, outcome-oriented funds such as principal-protected, tax managed and inflation-indexed funds, are expected to have marginal share of AUM inspite of rapid growth. Possibility of introducing mandatory rating for mutual fund products through rating agencies is likely to increase investor confidence. Efforts are expected to be undertaken for developing a well structured and well managed regulated, debt market which should increase in depth.

5. Market deepening and widening is expected with the objective of increased retail penetration and participation in mutual funds. Increased focus on growing investor awareness and increasing financial literacy is expected, resulting in an increase in the contribution of the retail segment to the industry AUM in the range of 46-48 percent by 2015, from 36 percent as of 2008 as mentioned earlier.

6. Domestic players expected to tap the overseas markets to grow their AUM through alliances with global players. HNIs and Mass Affluent segments may dominate the retail segment. Average holding period for mutual funds and average ticket size of investments in mutual funds is likely to remain unchanged. Institutional segment is likely to witness the emergence of a new category of SMEs seeking advice on managing their funds.

7. Greater participation is expected from Tier 2 cities and Tier 3 towns, including rural centers. Share of top 10 cities in total AUM is expected to decline as retail investors from smaller cities, towns and rural areas join the mutual fund fold. The public sector network of nationalized banks and post offices is likely to increase their focus on the distribution of mutual funds. Entry of public sector banks as mutual fund manufacturers are expected to increase their focus on mutual fund distribution. Private banks providing financial advice to HNIs are expected to marginally increase their market share.

8. IFAs are expected to emerge as a dominant channel in a scenario of robust stock market growth, focusing on increasing penetration, and will, therefore, have to focus on initiatives to develop and support this channel (for example, recruitment and training support).

India is likely to witness the entry of global fund super-markets enabled by regulatory changes. Cooperative sector, though beset with internal administrative issues, are likely to emerge as another channel, which should be tapped by Mutual Funds. Tapping the large network of NGOs, recognized by local authorities, to interact and to reach out to the lower middle class and poorer segments of population are important steps to increase mutual fund penetration. Distributors are likely to explore the possibility of innovations such as a common online platform and the usage of debit and credit cards for transactions.

The regulatory and compliance framework for mutual funds is likely to get aligned with the frameworks across the financial services spectrum. Regulators across Financial services spectrum viz. mutual funds and capital markets, pension, insurance and banking are expected to work towards harmonization of policies, with support from industry bodies like the CII and the respective industry associations. Thrust of the regulatory and compliance framework is expected to enhance resilience and sustainability, investor protection and good governance.

CONCLUSION

With the structural liberalization policies, the Indian economy, no doubt, is likely to return to a high grow path in few years. Hence, mutual fund organizations are needed to upgrade their skills and technology. It has to overcome the bottlenecks in the growth of mutual fund industry. There is a need of strong regulatory framework, transparency and disclosure policies, customer involvement, wider approach to cover Tier 2 and Tier 3 cities, up gradation of technology, innovation in products, customer satisfaction etc to survive in the competitive environment. There is need to make strategies to bring more confidence among investors. The Indian mutual fund industry is expected to witness rapid growth in AUM over the next few years. The industry, however, faces the challenge of achieving sustained profitable growth while increasing retail penetration and expanding the reach of mutual funds into rural areas.

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