Mutual Funds Industry - Indian and Global Scenario

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Abstract

A mutual fund is the ideal investment vehicle for today's complex and modern financial scenario. India's mutual fund market has witnessed phenomenal growth over the last few years. With the entrance of new fund houses and the introduction of new funds into the market, investors are now being presented with a broad array of Mutual Fund choices .The Indian mutual fund industry is one of the fastest growing sectors in the Indian capital and financial markets. The mutual fund industry in India has seen dramatic improvements in quantity as well as quality of product and service offerings. There has been an increasing trend in world wide mutual fund assets from 2005 till 2007. But the year 2008 witnessed a decline in the trend and especially worldwide mutual fund assets decreased 12.1 percent to $21.66 trillion at the end of the third quarter of 2008.

Introduction:

The economic growth of a country is to a great extent linked to the growth of capital market. Capital market growth depends on the savings of the country. In India, notwithstanding a high rate of savings by the community, the capital market is not in a position to grow fast because the common man has not acquired the necessary knowledge and expertise to select appropriate avenues of investment which will serve his needs. In this context, mutual funds,. one of the main constituents of the capital market have emerged as an important segment in the Indian financial sector.

A mutual fund is the ideal investment vehicle for today's complex and modern financial scenario. Markets for equity shares, bonds and other fixed income instruments, real estate, derivatives and other assets have become mature and information driven. Price changes in these assets are driven by global events occurring in faraway places. A typical individual is unlikely to have the knowledge, skills, inclination and time to keep track of events, understand their implications and act speedily. An individual also finds it difficult to keep track of ownership of his assets, investments, brokerage dues and bank transactions etc. A mutual fund is the answer to all these situations.

Mutual Fund Industry in India

The origin of mutual fund industry in India is with the introduction of the concept of mutual fund by UTI in the year 1963. Though the growth was slow, but it accelerated from the year 1987 when non-UTI players entered the industry. Major PSU banks like SBI, Canara Bank, Indian Bank and Punjab National Bank started offering their products. Insurance giants LIC and GIC also started their own mutual fund subsidiaries. They were all reasonably successful as equity investments gained popularity during the bull market of the early nineties.

Private sector players were allowed into the industry in 1993 after SEBI was established as the market regulator. A host of private banks and international fund houses started their operations and investors could chose from many innovative products. SEBI brought out comprehensive guidelines for establishment and management of mutual funds in 1996.

India's mutual fund market has witnessed phenomenal growth over the last few years. With the entrance of new fund houses and the introduction of new funds into the market, investors are now being presented with a broad array of Mutual Fund choices .The Indian mutual fund industry is one of the fastest growing sectors in the Indian capital and financial markets. The mutual fund industry in India has seen dramatic improvements in quantity as well as quality of product and service offerings in recent years.

The journey of the industry has been nothing less than spectacular, particularly in the last 5 years or so. A host of factors has contributed to the phenomenal growth of the industry. First and foremost, as a result of the increased competition, industry players have focused on product innovation to drive growth. This has not only helped the industry players to tap the latent needs of the investors, but also enabled them to expand markets as more and more investors, including retail investors, have begun to look at mutual funds as a suitable investment avenue. Second, the need for greater market penetration has forced industry players to devise innovative channels of delivery to gain and strengthen their market share. Today, we see new channels and models of distribution emerging as the race among the fund houses heats up to enhance reach to potential investors.

Third, a slew of tax incentives, which include rationalizing of capital gains tax, aiming to boost equity investing coupled with a benign interest rate regime have helped mutual funds gain popularity with investors. Finally, a slew of regulatory measures taken by SEBI have played a crucial role in instilling confidence among investors, especially retail investors. No doubt these factors have attributed significantly to the growth of the mutual fund industry in the country, particularly in recent times.

Further, the emergence of India as a major investment destination has done a world of good to the mutual fund industry in the country as it is witnessing entry of many big names in the global investment management business.

The entry of major global players like Morgan Stanley, Principal, Sunlife, and Fidelity, while Vanguard is mulling over its India debut, augurs well for the industry as not only these global investment management firms bring with them the expertise gained internationally but also bring the best international practices in terms of performances and investor services which will benefit the industry and will go a long way in helping it catch up with its counter parts in developed markets like the US and the UK.

In the past decade, Indian mutual fund industry had seen dramatic improvements, both quality wise as well as quantity wise. Before, the monopoly of the market had seen an ending phase, the Assets Under Management (AUM) was Rs. 67bn. The private sector entry to the fund family rose the AUM to Rs. 47000 Crores in March 1993 and till April 2008, it reached the height of 568,156 Crores.

Growth Trends of Mutual Funds in India

With the liberalization, the Indian industrial sector wants cheaper funds to face global competition. Banking intermediaries today cannot afford to reduce their margins. But the household sector demands better returns. All these factors have spawned the success of a new intermediary called mutual funds. The mutual fund industry in India, which is a little over three decades old, has undergone a change since the introduction of mutual funds regulation in 1993.

It was in this year that private and foreign mutual funds started participating in the industry. Today, the industry consists of the Unit Trust of India, mutual funds sponsored by public sector banks and insurance corporations and that have been set up by private and foreign funds.

The entry of private sector mutual funds has imparted competitive efficiency to the industry, helped investors to choose from funds with different maturity periods and offered different risk-return trade-offs. Table 1 shows the amount mobilized by the different mutual funds for the period 1987-88 to 2007-08.

The industry over the years has grown and there are 36 mutual funds registered with Securities Exchange of India (SEBI). In 1997-98, 37 schemes were launched by mutual funds (including one conversion scheme) 17 were open-ended while 20 were close-ended. In 1998-99, 52 new schemes (including 10 conversion schemes) were launched. Of these, 34 were open-ended, 16 close-ended and two were interval funds.

Out of these 52 schemes in the schemes, 29 came from private sector mutual funds, while 13 from the Unit Trust of India and 10 from the public sector. By March 2007, 756 schemes (as per the SEBI Bulletin, March 2007) were launched by mutual funds. Out of these 756 schemes, 486 schemes were open-ended while 270 were closed-ended schemes. This shows the development of mutual fund industry in India.

Table 1: Gross Mobilization by Mutual Funds

(Rs. In Crores)

Year	UTI	Public Sector Mutual Funds	Private Sector Mutual Funds	Total
1987-88	1736	258	N/A	2021
1988-89	3483	301	N/A	3784
1989-90	55.4	1204	N/A	6708
1990-91	3182	2967	N/A	6149
1991-92	8686	2580	N/A	11266
1992-93	11051	1978	N/A	13029
1993-94	51000	9527	1549	62076
1994-95	9500	2143	2084	13727
1995-96	5900	296	312	6508
1996-97	4280	151	346	4777
1997-98	9100	332	1974	11406
1998-99	13193	1671	7847	22711
1999-2000	13698	3817	43726	61241
2000-01	12413	5535	75009	92957
2001-02	4643	12082	147798	164523
2002-03	7096	23515	284095	314706
2003-04	23992	31548	534649	590190
2004-05	46656	56589	736463	839708
2005-06	73127	110319	914703	1098149
2006-07	142280	196340	1599873	1938493
2007-08	3,37,498	3,46,126	37,80,753	44,64,376

Source: SEBI Bulletin. N/A - Not Available

Table 2: Scheme-Wise Fund Mobilization

(Rs. mn)

Scheme	2002-03			2003-04			2004-05		
	Sale	Purchase	Net	Sale	Purchase	Net	Sale	Purchase	Net
Open-ended	313160	276737	36423	5874799	5414467	460332	822004	825977	-3972
Close-ended	554	1012	-458	27099	19347	7752	17704	11531	6173
Total	313714	277749	35964	5901899	5433814	468084	839708	837508	2200

Scheme	2005-06			2006-07			2007-08		
	Sale	Purchase	Sale	Purchase	Sale	Purchase	Sale	Purchase	Net
Open-ended	1057118	1031334	25783	1800158	1776258	23900	43,37,042	42,03,588	1,33,454
Close-ended	41032	14036	26996	138335	68250	70085	1,27,335	1,06,987	20,348
Total	1098149	1045370	52779	1938493	1844508	93985	44,64,377	43,10,575	1,53,802

Source: SEBI Bulletin.

Table 3: Scheme-Wise Resource Mobilization by Mutual Fund

(Rs. mn)

Scheme	2002-03			2003-04		
Sale	Purchase	Net	Sale	Purchase	Net	
A. Income/Debt Oriented Schemes (a+b+c+d)	3096722	3038916	57806	5609724	5213691	396033
a. Liquid/Money Market	1950471	1900422	50050	3756457	3510692	245765
b. Gilt	52017	58922	-6905	123870	101553	22317
c. Debt (other than assure return)	1094234	1008724	85510	1729397	1601343	128054
d. Debt (assured return)	0	70849	-70849	0	103	-103
B. Growth/Equity Oriented Schemes (a+b)	46396	45963	433	266947	194765	72182
a. ELSS	216	6789	-6573	527	5191	-4664
b. Other	46180	39174	7007	266420	189574	76846
C. Balanced Schemes	3944	20219	-16275	25228	25358	-131
Total (A+B+C)	3147062	3105098	41964	5901899	5433814	468084
Scheme	**2004-05**			**2005-06**		
	Sale	**Purchase**	**Net**	**Sale**	**Purchase**	**Net**
A. Income/Debt Oriented Schemes (a+b+c+d)	798674	803918	-5244	10,08,129	9,91,508	16,621
a. Liquid/Money Market	638594	628246	10348	8,36,859	8,32,654	4,205
b. Gilt	4361	5706	-1345	2,479	4,040	-1,560
c. Debt (other than assure return)	155719	169966	-14247	1,68,791	1,54,814	13,977
d. Debt (assured return)	0	0	0	0	0	0
B. Growth/Equity Oriented Schemes (a+b)	37280	30180	7100	86,014	50,783	35,231
a. ELSS	155	349	-194	3,935	343	3,592
b. Other	37126	29832	7264	82,079	50,440	31,639
C. Balanced Schemes	3755	3410	345	4,006	3,079	927
Total (A+B+C)	839708	837508	2200	10,98,149	10,45,370	52,779
Scheme	**2006-07**			**2007-08**		
	Sale	**Purchase**	**Net**	**Sale**	**Purchase**	**Net**
A. Income/Debt Oriented Schemes (a+b+c+d)	18,39,668	17,75,601	64,068	43,17,263	42,13,396	1,03,867
a. Liquid/Money Market	16,26,790	16,21,805	4,985	34,32,737	34,17,761	14,976
b. Gilt	1,853	2,816	-964	3.108	2,746	434
c. Debt (other than assure return)	2,11,026	1,50,980	60,046	8,81,346	7,92,889	88,457
d. Debt (assured return)	0	0	0	0	0	0
B. Growth/Equity Oriented Schemes (a+b)	94,351	66,145	28,206	1,26,286	79,353	46,933
a. ELSS	4,669	216	4,453	6,448	297	6,151
b. Other	89,683	65,929	23,753	1,19,839	79,056	40,782
C. Balanced Schemes	4,473	2,762	1,711	11,488	5,720	5,768
Total (A+B+C)	19,38,493	18,44,508	93,985	44,55,037	42,98,469	1,56,568

Source: SEBI Bulletin.

Today, there are nearly 1644 schemes offered by nearly 34 mutual fund players. However, of late, as the consolidation process gained momentum, the industry has seen a slew of mergers and acquisitions. It was Franklin Templeton, which fired the first salvo in this competition by acquiring Kothari Pioneer Mutual Fund. This has been followed by acquisitions of Zurich Mutual Fund by HDFC Mutual Fund, Sun F & C by Principal Mutual Fund, IL&FS Mutual Fund by UTI Mutual fund and First India Mutual Fund by the Sahara Group.

The primary new issue market continues to be in the doldrums with investors shunning share offerings, but mutual funds have become the flavour of the season. More and more small investors are now opting for safer investment avenues like mutual funds, which are now giving steady and good returns. One of the important features of mutual funds is that most of them are already into leasing and hire purchase business.

Another development in this area is the organisation of mutual funds by the reputed industrial houses like the Birlas and Tatas. Both are engaged in collaboration with foreign banks to tap non-resident investments. At present, the SEBI has permitted Indian mutual funds to invest in Global Depository Receipts/ American Depository Receipts (GDRs / ADRs) of Indian companies subject to a minimum of $20 million and a maximum of $50 million per mutual fund, subject to a limit of 10% of the net assets managed by the funds. Presently, the mutual fund industry has done a commendable job, not only providing innovative products, but at the same time providing returns too. The corresponding growth for bank deposits was a mere 17%. It cannot be denied that at Rs.7000 billion, the banking sector is ten times the size of the mutual fund industry. But it is equally true that preference for mutual funds is increasing. Since 1990-91, mutual fund collections have grown 25% annually against a bank deposits growth rate of 14%. The comparative advantage of mutual fund acceptability is presented in Table 4.

There is little doubt that the performance of mutual funds schemes is equally good in comparison to bank. An investor who maintains a large balance in savings account actually losses money when inflation is taken into account. The investor receives interest only in the minimum balance after the 10th of every month, while in the case of mutual funds, interest is credited from day one. As investor begin realising the importance of real returns, more and more banks might lose their depositors.

After growing slowly for most of the time since its birth four decades ago, the industry slowly but steadily began to see a period of significant growth during the last decade i.e. between 1993 and 2007. No doubt post 1993, the markets saw a flurry of innovative schemes catering to different needs of investors, viz., tax saving schemes, balanced schemes, debt schemes, money market schemes, index-based funds, sector-specific funds, serial plans etc. They started offering different investment horizons to suit investors, both short-term as well as long-term financial needs, although industry still faced some bottlenecks.

Table 4: Banks Vs Mutual Funds in a Nutshell

	Banks	Mutual Funds
Returns	Low	Better
Administrative	High	Low
Risk	Low	Moderate
Safety	Comparatively High	High
Liquidity	At a cost	Better
Investment option	Less	More
Network	High penetration	Low but improving
Quality of assets	Not transparent	Transparent
Capital Appreciation	Nil	High
Interest Calculation	Minimum balance between 10th and 30th of every month	Every Day
Guarantee	Maximum Rs.1 lakh on deposits	None

The following are the factors that have attributed to the spurt in the growth of the industry:

- The innovative schemes launched by mutual fund houses have given investors the option to choose funds, which suit their investment needs. These new innovative funds have helped galvanize the industry's growth.
- The consolidation in the industry has begun. Many big international fund houses have

entered the market. This will certainly help improve the growth levels of the industry.

- The technology wave in the mutual fund industry widens its reach, offers flexibility and convenience to investors, which reduces the distribution costs. These new funds are more customized and reach out to the growing youth and net-savvy population of India.
- Presently, mutual funds players are slowly realizing the potential of middle class cities of India. Increased penetration is helping the industry improve its assets under management.
- Tax benefits extended to the mutual fund investors investing in equity mutual fund scheme too have acted as a catalyst for the growth of the industry.

In addition to this, the following facts are also associated with the growth of mutual funds in India:

- Number of foreign AMC's are in the queue to enter the Indian markets
- Our savings rate is over 23%, highest in the world. Only channelising these savings in mutual funds sector, is required.
- We have approximately 34 mutual funds which is much less than US, having more than 800. There is big scope for expansion.
- 'B' and 'C' class cities are growing rapidly. Today most of the mutual funds are concentrating on the 'A' class cities. Soon they will find scope in the growing cities.
- Mutual fund can penetrate rurals like the Indian insurance industry with simple and limited products.
- SEBI allowing the MF's to launch commodity mutual funds.
- Emphasis on better corporate governance

Global Scenario of Mutual Funds

The quarterly figures of world wide mutual fund assets from 2005 shows that there has been an increasing trend till 2007. The year 2008 witnessed a decline in the trend and especially worldwide mutual fund assets decreased by 12.1 percent to $21.66 trillion at the end of the third quarter of 2008. Net cash flow to all funds was negative in the third quarter with $218 billion in outflows, the first worldwide outflow recorded since the third quarter of 2002.

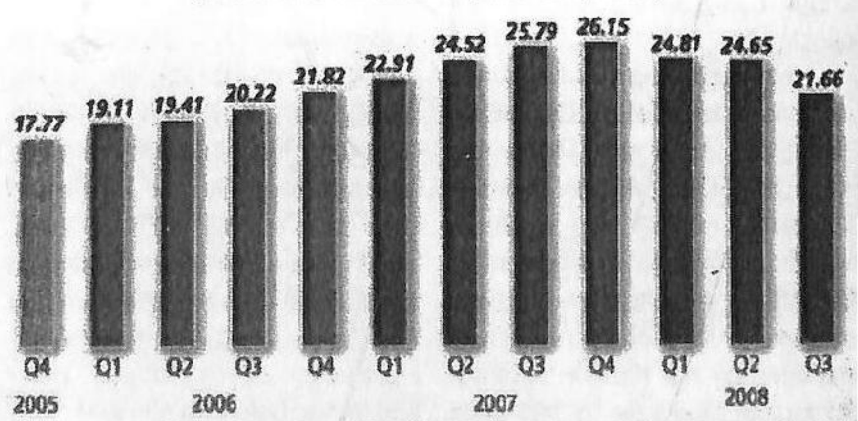
Long-term funds had net outflows of $246 billion in the third quarter, after registering net inflows of $73 billion in the second quarter. All categories of long-term funds experienced outflows. Year-to-date, equity funds have had $254 billion in outflows, bond funds have had $39 billion in outflows, and balanced/mixed funds have had $24 billion in outflows. Money market funds experienced net inflows of $28 billion in the third quarter, compared with outflows of $70 billion in the second quarter of 2008. Year-to-date money market funds have had $444 billion of net inflows.

The Investment Company Institute compiles worldwide statistics on behalf of the International Investment Funds Association, an organization of national mutual fund associations. The collection for the third quarter of 2008 contains statistics from 44 countries. The decline in assets reported in U.S. dollars was exacerbated by strengthening of the dollar. For example, on a U.S. dollar-denominated basis mutual fund assets in Europe declined 15.1 percent in the third quarter of 2008, compared to a 6.5 percent decline on a Euro-denominated basis.

On a U.S. dollar-denominated basis, both long-term fund assets and money market fund assets declined in the third quarter of 2008. Assets of equity funds fell 17.4 percent, with $8.6 trillion in assets at the end of the third quarter of 2008. Balanced/mixed funds assets declined 13.1 percent and bond fund assets declined 9.4 percent in the quarter. Assets of money market funds fell 2.6 percent to $5.4 trillion at the end of the third quarter.

Exhibit 1: Worldwide Mutual Fund Assets

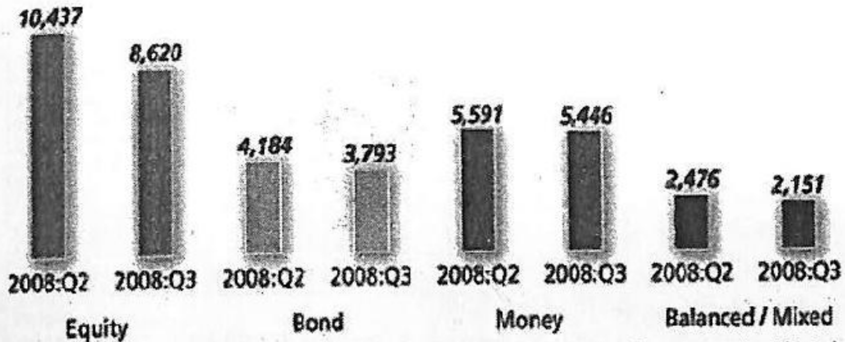
(Trillions of U.S. dollars, end of quarter)



Source: www.ici.org/new/ww_09_08.html (Investment Company Institute)

Exhibit 2: Worldwide Assets of Equity, Bond, Money Market, and Balanced/Mixed Funds

(BILLIONS OF U.S. DOLLARS, END OF QUARTER)



Source: www.ici.org/new/ww_09_08.html (Investment Company Institute)

Table 5 reveals that Net cash flow out of mutual funds worldwide was $218 billion in the third quarter of 2008. Net outflows from equity funds worldwide were $151 billion in the third quarter, compared with a net inflow of $29 billion in the second quarter of 2008. The American funds registered net flows of $95 billion out of equity funds in the third quarter, compared with a net inflow of $36 billion in the second quarter.

The pace of net outflows from European equity funds accelerated in the third quarter, with $64 billion in outflows compared to $24 billion in outflows in the second quarter. Flows to equity funds in the Asia/ Pacific region slowed but remained positive, dropping to a $9 billion inflow in the third quarter compared to $16 billion in the second quarter.

Bond funds experienced $66 billion in net outflows in the third quarter of 2008, compared to net inflows of $14 billion in the second quarter of 2008. The Americans experienced net inflows of $15 billion to bond funds in the third quarter, down from $39 billion in the second quarter. In contrast, Europe continued to experience net outflows from bond funds, with $61 billion in net outflows in the third quarter, compared to net outflows of $39 billion in the second quarter. Bond fund flows turned negative in the Asia/ Pacific region, with outflows of $21 billion in the third quarter compared to inflows of $15 billion in the second quarter.

Table 5: Net Sales of Mutual Funds Worldwide

(Billions of U.S. Dollars)

	2006	2007				2008		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
All Funds	404	410	431	316	382	394	2	-218
Long Term	262	276	293	37	131	-92	73	-246
Equity	150	114	99	31	84	-132	29	-151
Bond	40	67	97	-50	-30	13	14	-66
Balanced/Mixed	45	69	62	23	42	-15	15	-24
Other	26	26	35	32	36	41	15	-5
Money Market	143	133	138	279	250	486	-70	28

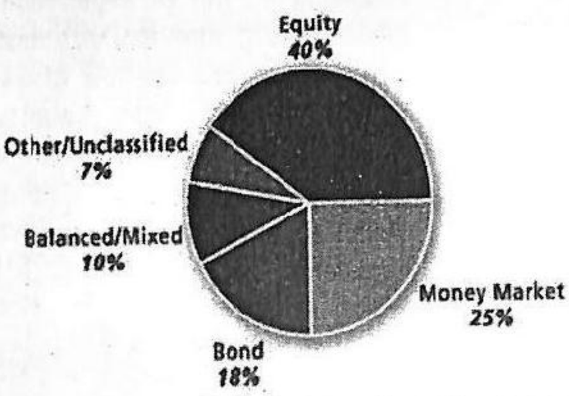
Worldwide outflows from balanced/mixed funds were $24 billion in the third quarter of 2008, compared to approximately zero net flows in the first half of the year. Net outflows from balanced/ mixed funds in the Americas were $11 billion in the third quarter, about offsetting the $11 billion inflow registered in the second quarter. European balanced/mixed funds experienced net outflows of $10 billion in the third quarter compared with net inflows of $3 billion in the second quarter.

Net flows into worldwide money market funds were $28 billion in the third quarter of 2008 compared to outflows of $70 billion in the second quarter of 2008. Both the Americas and Europe experienced inflows into money market funds, with a combined net flow of $44 billion in the third quarter compared to a combined outflow of $83 billion in the second quarter. Asia/Pacific money market funds registered net outflows of $18 billion in the third quarter after reporting net inflows of $12 billion in the second quarter.

From Exhibits 3, 4 and 5 it can be understood that at the end of the third quarter of 2008, 40 percent of worldwide mutual fund assets were held in equity funds. The asset share of bond funds was 18 percent and the asset share of balanced/ mixed funds was 10 percent. Money market fund assets represented 25 percent of the worldwide total. By region, 55 percent of worldwide assets were in the Americas in the third quarter of 2008, 34 percent were in Europe and 11 percent in Africa and Asia/Pacific.

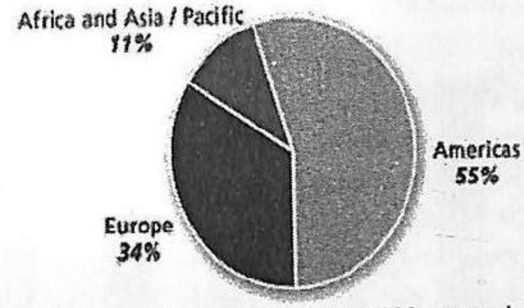
The number of mutual funds worldwide stood at 69,477 at the end of the third quarter of 2008. By type of fund, 40 percent were equity funds, 21 percent were balanced/mixed funds, 18 percent were bond funds, and 5 percent were money market funds.

Exhibit 3: Worldwide Mutual Fund Assets By Type Of Fund, 2008: Q3
(percent)



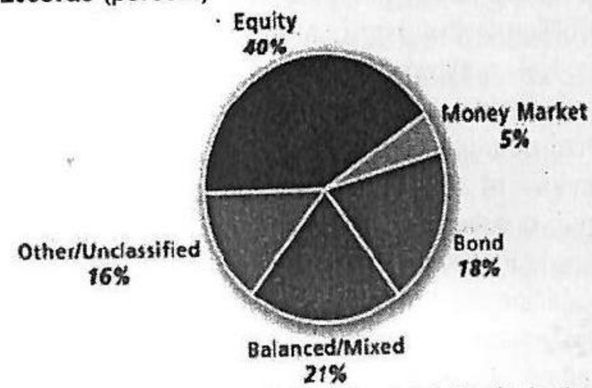
Note: Other/unclassified includes the total net assets of Ireland.
Source: www.ici.org/new/ww_09_08.html (Investment Company Institute)

Exhibit 4: Worldwide Mutual Fund Assets by Region, 2008:Q3 (percent)



Note: Components do not sum to 100 percent because of rounding.
Source: www.ici.org/new/ww_09_08.html (Investment Company Institute)

Exhibit 5: Worldwide Mutual Funds by Type of Fund, 2008:Q3 (percent)



Note: Other/unclassified includes total funds in Ireland.
Source: www.ici.org/new/ww_09_08.html (Investment Company Institute)

Table : 6 Total Net Assets, 2003-2008:Q3

Billions of U.S. dollars, end of periods

	2002	2003	2004	2005	2006	2007		2008		
						Q3	Q4	Q1	Q2	Q3
All Reporting Countries[1]	11,324	14,048	16,165	17,771	21,823	25,790	26,151	24,807	24,649	21,661
Equity	4,204	5,923	7,219	8,333	10,508	12,541	12,446	10,605	10,437	8,620
Bond	2,534	3,047	3,313	3,450	3,871	4,217	4,277	4,221	4,184	3,793
Money Market	3,190	3,206	3,323	3,364	3,864	4,663	4,961	5,615	5,591	5,446
Balanced/Mixed	918	1,198	1,445	1,566	2,049	2,588	2,632	2,495	2,476	2,151
Other	229	311	398	512	676	861	884	885	975	823
Countries Reporting in Every Period[2]	10,767	13,300	15,246	16,731	20,333	23,708	23,981	22,697	22,645	19,951
Equity	4,084	5,766	7,031	8,123	10,226	11,946	11,827	10,075	9,979	8,240
Bond	2,462	2,953	3,217	3,339	3,755	4,068	4,119	4,050	4,018	3,646
Money Market	3,159	3,157	3,254	3,289	3,769	4,534	4,812	5,460	5,440	5,298
Balanced/Mixed	860	1,128	1,364	1,485	1,927	2,324	2,367	2,255	2,260	1,967
Other	202	296	380	495	656	836	856	857	947	801

Source: National mutual fund associations; European Fund and Asset Management Association provides data for all European countries except Russia.

1 Components may not sum to total because of rounding or unclassified funds.

2 Number of countries is 25. Components may not sum to total because of rounding.

Table 7: Net Sales, [1] 2004-2008:Q3

Billions of U.S. dollars

	2002	2003	2004	2005	2006	2007	2008 Q1	2008 Q2	2008 Q3
All Reporting Countries2	239	317	457	971	1,299	1,538	394	2	-218
Equity	51	283	357	416	534	328	-132	29	-151
Bond	145	177	109	224	108	84	13	14	-66
Money Market	12	-212	-120	120	366	800	486	-70	28
Balanced/Mixed	9	56	82	108	230	196	-15	15	-24
Other	23	14	29	102	88	130	41	15	-5
Countries Reporting in Every Period[3]	201	165	307	672	951	1,212	361	-27	-142
Equity	39	250	298	317	414	315	-67	31	-118
Bond	136	86	62	91	77	73	34	31	-16
Money Market	8	-218	-131	128	336	728	416	-85	18
Balanced/Mixed	13	40	69	112	102	68	-28	-7	-23
Other	5	6	8	23	21	28	5	3	-1

Source: National mutual fund associations; European Fund and Asset Management Association provides data for all European countries except Russia.

1 Net sales are new sales plus reinvested dividends less redemptions plus net exchanges.

2 Components may not sum to total because of rounding or unclassified funds.

3 Number of countries is 17. Components may not sum to total because of rounding.

Table 8: Number of Funds, 2003-2008:Q3

(End of period)

	2002	2003	2004	2005	2006	2007 Q3	2007 Q4	Q1	2008 Q2	2008 Q3
All Reporting Countries[1]	54,110	54,569	54,982	56,868	61,855	64,085	66,350	67,220	68,513	69,477
Equity	22,974	22,688	22,362	23,264	25,698	26,430	27,319	27,284	27,627	28,091
Bond	11,619	11,886	13,309	13,231	13,571	13,380	13,306	12,961	12,662	12,574
Money Market	4,394	4,974	3,623	3,536	3,409	3,421	3,452	3,562	3,721	3,704
Balanced/Mixed	11,228	11,465	11,603	11,393	12,530	13,127	13,756	13,973	14,390	14,684
Other	1,310	1,578	1,997	3,317	4,116	5,169	5,619	6,536	7,144	7,383
Countries Reporting in Every Period[2]	42,393	41,689	42,354	42,427	45,394	46,730	47,661	47,520	48,031	48,859
Equity	20,808	20,018	19,918	20,044	21,805	21,998	22,449	22,156	22,324	22,642
Bond	9,946	9,847	9,961	10,004	10,292	10,297	10,241	9,876	9,674	9,717
Money Market	2,674	2,652	2,899	2,799	2,663	2,633	2,635	2,724	2,858	2,823
Balanced/Mixed	7,723	7,857	8,095	7,857	8,540	9,289	9,737	9,826	10,142	10,578
Other	1,242	1,315	1,481	1,723	2,094	2,513	2,599	2,938	3,033	3,099

Source: National mutual fund associations; European Fund and Asset Management Association (EFAMA, formerly FEFSI) provides data for all European countries except Romania and Russia.

1 Components may not sum to total because of unclassified funds.

2 Number of countries is 23.

Future Scenario of the Mutual Fund Industry in India

Financial experts believe that the future of Mutual Funds in India will be very bright. It has been estimated that by March-end of 2010, the mutual fund industry of India will reach Rs 40,90,000 crore, taking into account the total assets of the Indian commercial banks.

The estimation was based on the December 2004 asset value of Rs 1,50,537 crore. In the coming 10 years the annual composite growth rate is expected to go up by 13.4%. Since the last 5 years, the growth rate was recorded as 9% annually. Based on the current rate of growth, it can be forecasted that the mutual fund assets will be double by 2010.

The total assets under management of the Indian mutual fund industry could grow to $350-440 billion by 2012, expanding by 33 per cent annually, predicts a recent report, "Indian Asset Management: Achieving Broad-based Growth" by McKinsey & Company.

The report also notes that while a revenue and profit pool for Indian asset management companies (AMCs) is currently small (revenues of $542 million and profits before tax of $220 million in 2006-07), the profitability of Indian AMCs was at par with peers in other economies. Operating profits for AMCs in India, as a percentage of average assets under management, were at 32 basis points in 2006-07, while the number was 12 bps in UK, 17 bps in Germany and 18 bps in the US, in the same time frame.

The retail mutual funds and portfolio management services will be the key drivers of profitability for AMCs, though the institutional segment is key to volumes. The report predicts that the retail segment could grow at a compounded annual growth rate of 36 - 42 per cent annually, taking the total AUM from $36 billion in 2007 to $160-$200 billion in 2012.

The research suggests that the 'mass affluent' segment in the top eight cities and the broad retail segments in tier 2 and tier 3 cities will be the key growth drivers. The report captures results of McKinsey's proprietary research and a survey of 850 independent financial advisors and 750 investors.

Conclusion:

Looking at the past developments and combining it with the current trends it can be concluded that the future of Mutual Funds in India has lot of positive things to offer to its investors. The tremendous success the fund industry has enjoyed is due to the fact that, it has done more than any other financial services industry to offer investors solid products tailored to meet real financial needs, and marketed those products responsibly. If the long-term health of the industry and investor protection is maintained, the record of success can be maintained in the future.

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