

History of Mutual Funds

A mutual fund is a trust or a pool of investments by investors who share a common financial goal. This pool is invested in several financial instruments such as shares, debt instruments, bonds etc. by the company managing that trust. This company is called an Asset Management Company (AMC). Returns so generated are later distributed among the members of the pool in the ratio of their investments. The AMC invests its money in a manner that while the returns are maximized, the risks are kept to a minimum level. In India, it is mandatory for every Asset Management Firm to be registered with the Securities and Exchange Board of India (SEBI), a body that regulates all securities instruments. The first company that dealt in mutual funds was the Unit Trust of India. It was set up in 1963 as a joint venture of the Reserve Bank of India and the Government of India. The objective of the UTI was to guide small and uninformed investors who wanted to buy shares and other financial products in larger firms. The UTI was a monopoly in those days. One of its mutual fund products that ran for several years was the Unit Scheme 1964. The mutual fund industry in India has undergone many phases.

History of Mutual Funds

The history of Mutual Funds is as following:

a. Phase of Inception (1964-87)

The first phase was marked by the setting up of the Unit Trust of India (UTI) . Though it was a collaboration between the Reserve Bank of India and the Indian Government, the latter was soon delinked from the day-to-day operations of the Unit Trust of India. In this phase, the company was the sole operator in the Indian mutual fund industry. In 1971, the UTI launched the Unit Linked Insurance Plan (ULIP). From that year until 1986, UTI introduced several plans and played a very big role in introducing the concept of mutual funds in India. When UTI was set up several years ago, the idea was to not just introduce the concept of mutual funds in India; an associated idea was to set up a corpus for nation-building as well. Therefore, to encourage the small Indian investor, the government built in several income-tax rebates in the UTI schemes. Not surprisingly, the investible corpus of UTI swelled from rupees six hundred

crores in 1984 to six thousand seven hundred crores in 1988. Hence, it was the time for the Indian mutual industry to move into the next phase.

b. Entry of Public Sector (1987-1993)

By the end of 1988, the mutual fund industry had acquired its own identity. From 1987, many public sector banks had begun lobbying the government for starting their own mutual fund arms. In November 1987, the first non-UTI Asset Management Fund was set up by the State Bank of India. This AMC was quickly followed by the creation of other AMCs by banks like Canara Bank, Indian Bank, Life Insurance Corporation, General Insurance Corporation, and Punjab National Bank. This opening up of the mutual fund industry delivered the desired results. In 1993, the cumulative corpus of all the AMCs went up to rupees forty four thousand crores. The experts were of the opinion that in the second phase, not only the base of the industry increased but also it encouraged investors to spend a higher percentage of their savings in mutual funds. It was evident that the mutual fund industry in India was moving towards higher growth.

c. Entry Private Sector Phase (1993-1996)

In the period 1991-1996, the Government of India had realized the importance of the liberalization of the Indian economy. Financial sector reforms were the need of the hour. India needed private sector participation for the rebuilding of the economy. Keeping this in mind, the government opened up the mutual fund industry for the private players as well. The foreign players welcomed this move and entered the Indian market in significant numbers. In this period, eleven private players launched their Asset Management Funds in collaboration with foreign entities. Few of the top AMCs in the private sector were:

- i. ICICI Prudential AMC- This Company is a joint venture between ICICI Bank of India and Prudential Plc of UK. It manages a corpus of INR 2, 93,000 crores and has an inventory of more than 1400 schemes.
- ii. HDFC Mutual Fund- Launched in the 1990s, the HDFC Mutual Fund manages more than 900 different kinds of funds.
- iii. Kotak Mahindra Mutual Fund- This AMC has an asset base of more than Rs. 1,19,000 crores. It is a joint venture of Kotak Financial Services and the Mahindra Group.

d. SEBI Interventions and Growth, and AMFI

In 1990s as the mutual fund industry grew further, the AMCs and the government felt that it was time for regulation and some control. Investors had to be protected as well as a level playing ground had also to be laid down. A few years ago, the Indian industry had suffered a lot because of bank scams and there was a real threat that investors might lose their monies yet again. Consequently, the government introduced the SEBI Regulation Act in 1996 which laid down a set of fair and transparent rules for all the stakeholders. In 1999, the Indian government declared that all mutual fund dividends would be exempt from income tax. The idea behind this decision was to spur further growth in the mutual fund industry. Meanwhile, the mutual fund industry also realized the importance of self-regulation and set up an industry body- the Association of Mutual Funds of India (AMFI).

e. Phase of Consolidation (February 2003 – April 2014)

The Unit Trust of India was split into two separate entities in February 2003, following the repeal of the original UTI Act of 1963. The two separated entities were the UTI Mutual Fund (which is under the SEBI regulations for MFs) and the Specified Undertaking of the Unit Trust of India (SUUTI). Following this bifurcation of the former UTI and occurrence numerous mergers among different private sector entities, the mutual fund industry took a step towards the phase of consolidation. After the global economic recession of 2009, the financial markets across the globe were at an all-time low and Indian market was no exception to it. Majority of investors who had put in their money during the peak time of the market had suffered great losses. This severely shook the faith of investors in the MF products. The Indian Mutual Fund industry struggled to recover from these hardships and remodel itself over the next two years. The situation toughened up more with SEBI abolishing the entry load and the lasting repercussions of the global economic crisis. This scenario is evident from the sluggish rise in the overall AUM of the Indian MF industry.

f. Phase of Steady Development and Growth (Since May 2014)

SEBI launched numerous progressive measures in September 2012 recognizing the lack of penetration of mutual funds in India. The idea behind these measures was to bring more transparency and security for the interest of the stakeholders. This was SEBI's idea to re-energize' the Indian Mutual Fund Industry and boost the overall penetration of mutual funds

in India. The measures bore fruit in the due course by countering the negative trend that was set because of the global financial crisis. The situation improved considerably after the new government took charge at the centre. Since May '14, the Indian MF industry has experienced a consistent inflow and rise in the overall Assets under Management as well as the total number of investor accounts. The Indian mutual fund industry can grow immensely if Indians can think about parking a higher percentage of their savings in Mutual Funds. The market observers say that Indians have begun shifting a part of their savings from physical assets like gold and land to financial instruments like bonds and silver. But the AMFI and the government need to encourage Indians even more for investments in mutual funds.

With the setting up of the Unit Trust of India, the Indian mutual fund industry began way back in 1963. Over the years, this industry has evolved from being a UTI-dominated to a balanced participation of the public and the private sectors. But the Indian mutual fund industry is still very small compared to the global standards. The mutual fund industry can grow multi-fold with more encouragement from AMFI and the government.

Disclaimer:

1. These notes are only for the students.
2. These notes are prepared after referring various books and websites.