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MUTUAL FUNDS: A HISTORICAL REVIEW OF THE GIANT MARKET INSTRUMENT

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INTRODUCTION:

A more critical role for the financial sector in developing nations is to stimulate economic growth. Both inventory and fixed capital assets are forms of investment in an economy. An increase in a country's fixed capital is another factor that contributes to its economic growth. There would be a two-way street of impact between the financial system's asset kinds and the economy's capital formation. Therefore, the expansion of a country's financial system is a key component of economic development. The economic development of a nation is defined as the advancement of its diverse economic entities. The units are categorised into the corporate sector, government sector, and household sector. These entities will ultimately have either a budget surplus, budget deficit, or a balanced budget, depending on their actions.

The following are the four major components that comprise the Indian Financial System:

- Financial Institution
- Financial Market
- Financial Instruments and
- Financial Services

OBJECTIVES:

1) To understand the Components of Indian Financial System
2) To review the Indian Mutual Fund Industry

METHODOLOGY:

This paper relies on secondary sources of data. The secondary data has been gathered from many books, journals, and websites.

FINANCIAL INSTITUTIONS:

Financial institutions serve as mediators in the financial sector. They serve as a mediator between those who save money and individuals who invest money. Financial institutions, in essence, are establishments that provide financial services to their clientele or members. They gather the savings of the entities with excess funds and distribute them to productive endeavours that offer a higher rate of profit. The institutions encompass financial entities such as banks, trust firms, insurance companies, and investment dealers. Financial institutions play a crucial role in the operation of a financial system. These are mainly classified into two i.e. Banking Institutions and Non- Banking Institutions.

FINANCIAL MARKET:

Financial markets are a constituent part of the financial system. Financial markets serve as the fundamental support system for the economy. This is due to their provision of financial assistance for the expansion of the economy. The financial market facilitates the flow of funds from sectors with a surplus to sectors with a deficit. Financial markets encompass venues where individuals can engage in the trading of various financial assets such as stocks, bonds, currencies, and other similar instruments. They are classified into Capital Market and Money market.

FINANCIAL INSTRUMENTS:

Financial instruments refer to contractual agreements including monetary transactions between multiple parties. Financial assets, securities, or other financial instruments are the things that are exchanged in a financial market. Financial instruments are documents that represent claims on assets.

Financial instruments are based on two things, that is, the term and type of financial securities that are :

The term of financial securities:

- Long term: shares, debentures, mutual funds, term loans
- Short term: call loans (money market), promissory notes, bills of exchange rate, etc.

FINANCIAL SERVICES:

The offering comprises services rendered by asset management and liability management firms. Financial services encompass the provision of financial products and services by financial institutions to their clientele.

TYPES OF FINANCIAL SERVICES

- Banking Services
- Foreign Exchange Services
- Investment Services
- Asset management
- Hedge fund management
- Custody Services
- Insurance Services

It deals with the selling of insurance policies, brokerages, insurance underwriting, or reinsurance.

Additional Financial Services:

- Intermediation or advisory services
- Private equity
- Venture Capital
- Angel Investment

According to the SEBI (Mutual Funds) Regulations (1996), a "mutual fund" is defined as a trust that is established to collect funds by selling units to the public or a specific group of people. These funds are then invested in various securities, such as money market instruments, gold or gold-related instruments, or real estate assets.

HISTORY OF MUTUAL FUNDS:

The Indian mutual fund business is now in its early stages of development. The inception of mutual funds took place in Belgium in 1822. Shortly after, Great Britain and France did the same. According to Subrahmanyam (2009: 213), there were up to 90 investment trusts operating in the UK in 1914. The inaugural mutual fund in the United States, known as The Boston Personal Property Trust, was founded in 1893. In contrast to these early worldwide advancements, mutual funds in India originated in the 1960s. The inception of the mutual fund sector in India dates back to 1963 when the Unit Trust of India was established, under the joint efforts of the Government of India and the Reserve Bank of India. Over the past few years, there has been a substantial growth in the mutual fund business. Mutual funds have a long-standing presence in India, characterised by five distinct periods in their historical development:

First Phase: 1964-1987:

The Unit Trust of India (UTI) was founded in 1963 through legislation passed by the Parliament. The establishment of this entity was initiated by the Reserve Bank of India and it operated under the regulatory and administrative jurisdiction of the Reserve Bank of India. In 1978, the Reserve Bank of India (RBI) ceased to have control over UTI, and the regulatory and administrative authority was transferred to the Industrial Development Bank of India (IDBI). UTI's inaugural scheme was the Unit Scheme 1964. By the conclusion of 1988, UTI possessed assets under management of Rs. 6,700 crores.

Second Phase-1987-1993 (Entry of Public Sector Funds):

In 1987, non-UTI public sector mutual funds were established by public sector banks, Life Insurance Corporation of India (LIC), and General Insurance Corporation of India (GIC). SBI Mutual Fund was the inaugural non-UTI Mutual Fund, founded in June 1987. It was succeeded by Canbank Mutual Fund in December 1987, Punjab National Bank Mutual Fund in August 1989, Indian Bank Mutual Fund in November 1989, Bank of India in June 1990, and Bank of

Baroda Mutual Fund in October 1992. LIC began its mutual fund in June 1989, whereas GIC established its mutual fund in December 1990.By the conclusion of 1993, the mutual fund sector has assets under management amounting to Rs. 47,004 crores.

Phase Three: 1993-2003 (Introduction of Private Sector Investments)

The Indian mutual fund market witnessed a significant transformation in 1993 with the introduction of private sector funds. This development expanded the options available to Indian investors, providing them with a broader selection of fund families. In addition, 1993 marked the establishment of the initial regulations for mutual funds, requiring the registration and governance of all mutual funds, with the exception of UTI. The registration of the first mutual fund in the private sector took place in July 1993. The entity formerly known as Kothari Pioneer has undergone a merger with Franklin Templeton.The 1993 SEBI (Mutual Fund) Regulations were replaced by more extensive and updated Mutual Fund Regulations in 1996. The industry currently operates in accordance with the SEBI (Mutual Fund) Regulations of 1996. The count of mutual fund houses has consistently increased, with numerous foreign mutual funds launching funds in India, and the industry has witnessed multiple mergers and acquisitions. In January 2003, there were 33 mutual funds with a combined asset value of Rs. 1,21,805 crores. The Unit Trust of India, with assets under management totaling Rs. 44,541 crores, significantly outperformed rival mutual funds.

Fourth Phase-since February 2003:

In February 2003, with the repeal of the Unit Trust of India Act 1963, UTI was divided into two distinct corporations. The Specified Undertaking of the Unit Trust of India holds assets worth Rs. 29,835 crores as of January 2003. These assets primarily consist of the US 64 scheme, assured return scheme, and other related schemes. The Specified Undertaking of Unit Trust of India, operating under an administrator and in accordance with the regulations

established by the Government of India, is exempt from the Mutual Fund Regulations.

The second option is the UTI Mutual Fund, which is sponsored by SBI, PNB, BOB, and LIC. The organisation is officially registered with SEBI and operates in accordance with the Mutual Fund Regulations. The mutual fund industry has entered a phase of consolidation and growth due to the division of the previous UTI, which had over Rs. 76,000 crores of assets under management in March 2000, and the establishment of a UTI Mutual Fund in accordance with the SEBI Mutual Fund Regulations. Additionally, recent mergers have occurred among various private sector funds. The graph illustrates the progressive increase of assets throughout the years.

Fifth (Current) Phase – Since May 2014

Recognising the limited reach of Mutual Funds (MFs), particularly in tier II and tier III cities, and the necessity for better coordination among different parties involved, SEBI implemented a series of forward-thinking initiatives in September 2012 to revitalise the Indian Mutual Fund industry and enhance the penetration of MFs. Over time, the implemented interventions successfully halted the declining trajectory that ensued following the global economic crisis. The situation significantly improved following the installation of the new government at the central level.

From May 2014 onwards, the industry has experienced consistent inflows, resulting in an increase in both the assets under management (AUM) and the number of investor folios (accounts).

SUMMARY:

Though the Indian Mutual Fund Industry was doing well from last two decades and an instrument has become very popular amongst the youth. This paper satisfies the need of the reader who seeks the primary information of the mutual fund and provide an insight into the mutual fund.

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