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HISTORY AND GROWTH OF MUTUAL FUND INDUSTRY

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Abstract :

The Mutual funds industry in started in 1963 India with the formation of Unit Trust of India at the initiative of the Government of India and Reserve Bank. The primary objective at that time was to attract small investors and it was made possible through the collective efforts of the Government of India and Reserve Bank of India. The history of Mutual funds in India can be divided into five Phases.

History of Mutual Funds

Phase 1	Establishment and growth (1964-1987)
Phase 2	Entry of public sector fund (1987-1993)
Phase 3	Emergence of private sector fund (1993-1996)
Phase 4	Growth and SEBI regulation (1996-2004)
Phase 5	Growth and consolidation (2004 onwards)

Phase 1 :: Establishment and growth of Unit Trust of India (1964-1987)

Unit Trust of India (UTI) was established in 1963 by an Act of Parliament. It was set up by the Reserve Bank of India and it continued to operate under the regulatory control of the RBI until the two were de- linked in 1978 and the entire control was transferred in the hands of Industrial Development Bank of India (IDBI). UTI launched its first scheme in 1964 named as Unit Scheme 1964 (US-64) which attracted the largest number of investors in any single investment scheme over the years. UTI launched more innovative schemes in 1970's and 80's to suit the need of different investors.

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It launched ULIP (Unit Linked Investment plan) scheme in 1971. Six more schemes between 1981-84 children's gift growth funds and India funds in 1986 (India's first off scheme funds) master share (India's first equity dividend scheme) (1987) and monthly income schemes during 1990's. By the end of 1987, UTI had launched 20 schemes mobilizing net resources amounting to Rs. 4564.0 crores. For these 23 long years up to 1964-87, UTI enjoyed complete monopoly.

Phase 2 :: Entry of public sector funds (1987-1993)

It was in 1986 that the Government of India amended banking regulations and allowed commercial banks in the public sector to set up Mutual funds. This led to promotion of "SBI Mutual funds" by State Bank of India in July 1987 followed by Canara Bank, Indian Bank, Bank of Baroda, Bank of India, Punjab National Bank, and GIC Mutual funds.

The Indian Mutual funds industry witnessed a number of public sector players entering the market in the year 1987. The Government of India further granted permission to Insurance corporations in the public sector to float Mutual funds. The year 1987 marked the entry of non - UTI, public sector Mutual funds set up by public sector bank, Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC). The assets under management of the industry increased seven times to Rs. 47004 crores. However UTI remained the leader with about 60 % market share. The period of 1987–1993 can be termed as the period of public sector Mutual funds. From a single player in 1985, the number increased to 8 players in 1993.

Phase 3 :: Emergence of private sector funds (1993-1996)

The permission was given to the private sector funds including foreign funds management companies (most of them entering through joint venture with Indian promoter) to enter the Mutual funds industry in 1993. With the entry of private sector funds in 1993, a new era started in Indian Mutual funds industry, giving the Indian

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investors a wider choice of funds and therefore giving rise to more competition in the industry. Private funds introduced innovative products, investment techniques and investors servicing technology during 1994. In 1993 the first Mutual funds regulation came into being under which all Mutual funds, except UTI was to be registered. The Kothari Pioneer (now merged with Franklin Templeton) was the first private sector Mutual funds registered in July 1993. The number of Mutual funds houses went on increasing with many foreign Mutual funds setting up funds in India and also the industry witnessed several mergers and acquisitions.

Phase 4 :: Growth and SEBI Regulation (1996-2004)

The Mutual funds industry witnessed robust growth and strict regulations from SEBI after 1996. The mobilization of funds and the number of players operating in the industry reached new heights as investors started showing more interest in Mutual funds.

Investors' interests were safe guarded by SEBI and the government offered tax benefit to the investors. In order to encourage them, SEBI (Mutual funds) Regulations 1996 was introduced by SEBI that set uniform standards. The union budget in 1999 exempted all dividend incomes in the hands of investors from income tax. Various investor awareness programmers were launched during this phase both by SEBI and Association of Mutual Funds in India (AMFI).

Phase 5 :: Growth and consolidation (2004 onwards)

The industry witnessed several mergers and acquisition. Recent examples of which are acquisition of schemes of Alliance Mutual funds by Birla Sun Life, etc. Simultaneously more international Mutual funds players entered India like Fidelity, Franklin Templeton Mutual funds etc. There were 29 funds as at the end of March 2006. At the end of December 2006, there were 32 funds which managed assets of Rs. 323597 crores under 75 schemes as compared to assets worth Rs. 47000 crores under management in

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March 1998. Assets under Management of mutual funds (in all scheme) from April 2007 to December 2007 was Rs. 542794.36 crores. This does not include Net Assets of Rs. 7141077 crores under exchange trade funds (ETF). (Source: Report of Investment Management Department, SEBI) Besides, low interest rate, tax holidays on some schemes, excellent performance of the stock market has contributed to the growth of Mutual funds. But the penetration of Mutual funds in the retail investors segment is still low at 6 % of GDP against 70 % in USA. Active participation of the retail investor will further boost the Mutual funds industry in India. Today the industry is pre-dominantly urban and to some extent semi–urban. Mutual funds industry must tap the huge untapped potential in the country.

Reference :

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