Journal of Marketing Strategy (JMS)

Vol. 6 Issue 1, February2018,

ISSN: 2347-3770 | Impact Factor: 4.73

Journal Homepage: http://www.jmspublication.com, Email:publicationjms@gmail.com

Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gage as well as in Cabell's Directories of Publishing Opportunities, U.S.A

Mutual Funds: An underrated investment product, need of the hour

Dr. Vidhi Kaul

Asst. Prof.

St. Xavier's College, Nevta, Jaipur

Abstract

Mutual Fund is an investment product that happens to be a major player of the retail debt market. It is a kind of product, which offers the investor the advantages of professional management of invested money and diversification of that money, thereby, mitigating the volatility of the stock market and cushioning the impact of an unsuspected hard fall. It helps in building a systematic investment portfolio for an investor and also comes bundled with options of attractive tax rebates making it a lucrative product for both the providers and buyers. To put into context, mutual funds did exceptionally well post-demonetization, which otherwise led to negative returns across investment product range.

However, in spite of its many advantages over the conventional forms of investments, which include the equity and equity-related investments, insurance and gold, among others, mutual fund has remained an underrated product that has neither been able to penetrate the market vis-à-vis its competitors, nor has it been able to build a worthy product perception in the end-user's mind.

This paper attempts to study Mutual Funds as a marketable product and analyses why it suffers from such low penetration levels in the country when clearly some of the riskier investment products and those that offer comparatively lesser returns have better acceptability. The study also outlines the iron-clad safeguards of Securities and Exchange Board of India (SEBI) that, over the years, led to shoddily carried out brand campaigns, which have done more damage to the product than retail it to the buyer. It also gives an insight into how product repositioning is the need of the hour to create awareness as it is critical to educate people on mutual funds and exploit the untapped potential of this investment product.

The journey of Mutual Funds in India

Mutual fund industry in India started with the formation of Unit Trust of India (UTI) in 1963. It was a Government of India and Reserve Bank of India initiative. In February 2003, following the repeal of the Unit Trust of India Act 1963, UTI was bifurcated into two separate entities. One is the Specified Undertaking of the Unit Trust of India. The second is the UTI Mutual Fund, backed by State Bank of India (SBI), Punjab National Bank (PNB), Bank of Baroda (BOB) and the Life Insurance Corporation (LIC). It is registered with SEBI and functions under the Mutual Fund Regulations. Since then mutual funds have come a long way.

Mutual funds are premised on the belief that risks of the stock market can be mitigated by spreading it among the members who opt for the fund. Therefore, mutual funds invest in a broad range of securities. This limits investment risk by reducing the effect of possible erosion in the value of any one security. The shareowners can, thus, benefit from diversification of portfolio, through minimal acquired units, an option otherwise usually available to wealthy investors who are in a position to buy significant positions in a wide variety of securities.

Because of its safeguards against potential risk and easy redemption process, mutual fund is a kind of investment that is relatively safer and lucrative compared to other market-influenced investment products. Quite obviously, it cannot beat the safety net of parking your money in a bank, but then it would be also wise for an investor to understand the difference between savings and investments. In the case of mutual funds, the end-user benefits from the merits of professionally managed investment and asset-class diversification with substantially reduced exposure to risk.

Like any other product, mutual funds also have product classification, which helps the companies offer different variants of the mutual funds in the market besides the popular equity-based funds. These include the money market funds (investments in debt instruments that bear interest), hybrid funds (portfolios that have a mix of debt, equity and money market funds), income-debt funds (issued by banks, financial institutions and government who invest in securities rated by credit agencies), gilt funds (government securities with minimal credit risk) and commodity funds that invest in commodities. There are still others that take a sectoral route to investing in areas such as real estate, housing and infrastructure among others.
According to The Mint newspaper, as on 30th September 2016, HDFC mutual fund (14.89 per cent) and ICICI prudential (12.82 per cent) together account for 25 per cent share of the total AUM market in India. Reliance Mutual Fund (10.23%) and SBI Mutual Fund (8.59%) are in the third position

Demonetization and its impact

The Government of India announced demonetization of large denomination notes of Rs500 and Rs1,000 on November 8, 2016 to weed out black money and expand the base of income tax payers in the country. Demonetization sucked cash dry from the market and pumped it in the banks that were inundated with cash supply. As a result of this decision, several sectors, particularly the small scale enterprises, real estate sector and gold, which were largely dependent of cash-based economy were hit hard. The stock market also came down initially but went on to rally after the initial hiccups.

Amid, the chaos and economic stalemate that ensued, mutual fund emerged as the unlikely hero that not only dodged the scythe reaping the black money market, but also attracted a bulk of the investments post-demonetization.

Reserve Bank of India paper, *Financialisation of savings into non-banking financial intermediaries* [1], reveals there has been a 14.5 per cent jump in the Non-Banking Financial Companies (NBFC) segment largely driven by the upshot in the mutual funds and insurance schemes in the period after demonetization. The paper released by RBI on August 11 this year not only takes into account the performance of the NBFC and the instruments in whole of 2016-17 fiscal, but also the outcome in the first quarter of the current fiscal (2017-18). Since demonetization, this period of study covers 8 months of wealth creation in mutual funds. According to the RBI data, total assets under management (AUMs) touched an all-time high of more than Rs17.5 trillion at the end of March 2017. The investment under this instrument strengthened to Rs20 trillion (Rs20.5 lakh crore) by July 2017.

TABLE 1 : Net inflows/outflows in mutual funds
(Rs billion)

Category	Nov 2015 - June 2016	Nov 2016 - June 2017	2015-16	2016-17	April-June 2017-18
Income / Debt Schemes	-328.6	386.2	330.1	2131.5	407.4
Equity Schemes	235.7	670.7	740.3	703.7	283.3
Balanced Schemes	111.4	436.5	197.4	366.1	222.6
Exchange Traded Fund	75.5	203.8	78.2	232.8	21.9
Fund of Funds Investing Overseas	-2.4	-1.9	-4.2	-3.6	-1.1
Total	91.6	1695.5	1341.8	3420.5	934.0

Source: Securities and Exchange Board of India

The above tabled sourced from SEBI clearly shows the upward trajectory of mutual funds post demonetization. Investments to equity-linked mutual funds rose by almost 300 per cent (285%) between November 2016 and June 2017. The mobilization of cash resources helped register “net inflows” in the income/debt schemes in the same period compared to the “net outflows” in the eight months post-demonetization. In its story, *Demonetisation has boosted MFs, taken sheen off gold and real estate* [2], the Hindu Businessline claims substantial resource mobilization in mutual funds that boosted the inflow Net flows at Rs1,69,500 crore against Rs9,100 crore the previous year.

The incredible resource mobilization and sustained investments post-demonetization sets Mutual Funds apart from other classes of investments, including traditional avenues of realty and gold. This brings us to the question why the mutual funds rallied against odds when the economy was still figuring out the “next normal” under different asset classes? The following points help in understanding this phenomenon.

Reduction in interest rates on bank deposits: As was widely expected, banks flush with funds after demonetization slashed their interest rate of savings. This was a natural outcome of the huge cash deposits that led to an unnatural state of liquidity for the banking organizations. Due to reduced rates of interest the investors started parking their money in the mutual funds,

Drop in the prices of gold: One of the initial rallying points of investments post-demonetization, gold gradually lost its sheen. Government curbs followed and fresh Income Tax regulations were clamped on gold purchase and storage leading to a fall in its market price. Once tax department moved into the equations, people opted for mutual funds. Gold Exchange Traded Funds registered outflows of Rs300 crore for the period ending April-August 2017 [3].

Even the RBI in its report admitted: The reduction in interest rates on bank deposits after demonetization, and the decline in gold prices, made debt and equity MFs more attractive.

Real Estate tanks: One of the most conspicuous casualties of the demonization was the realty sector. **Leo Puri, Managing Director** of **UTI Mutual Fund, in an interview to *Wealth Ideas* portal had predicted real estate would lose investment value.** "Realty will be vulnerable given the nature of money it has attracted in the past," Puri said referring to the cash that has been traditionally funneled through black money or *hawala* network in realty transactions.
Increase in Tax net: After demonetization, the government ended up increasing its tax base. *The Mint* newspaper, in its report dated September 25, 2017 [5], claims that 9.1 million tax payers were added after demonetization in 2016-17. This is an 80% increase over the average annual increase in the tax payers. According to the report, India had close to 56 million individual taxpayers in fiscal 2015-16. As more people came inside the tax net the (Equity Linked savings Scheme) ELSS turned out to be the go-to investment instrument to save on taxes and make a worthy investment [6], says *mysiponline.com* in its paper: Demonetization, the game changer for mutual funds.
With demonetization making traditional investment sectors either less attractive or riskier, the resource mobilization spiked investments in mutual funds, insurance and pension funds.

Product perception and its penetration

For any product to have popular acceptance in the market, the message of its use has to be effectively delivered across to the target group. The post-demonetization rally in mutual funds amplifies the potential of the non-banking instrument in wealth creation and building of investment portfolios for individuals as a natural progression of savings. In spite of the many advantages of mutual funds as an investment product, its positioning, over the years, hasn't been able to push the envelope on the product.
According to 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. This is a dismal user base for a potent instrument of wealth creation, which hedges inherent risks compared to competing products and offers a healthy return on investment even in unforeseen market conditions such as the one brought upon by the roll out of demonetization last year. The concentration of mutual fund investors in just a handful of cities in India highlights its miserable brand recall value among potential investors who are either unaware of its benefits or do not find handy resources, human and infrastructure, to enable mobilization of resources in this instrument.

Market-based reports on Assets Under Management (AUM) reveal that the overall inflow in mutual funds comes from just 15 cities. AUM refers to the market value of the assets that a financial institution or an investment firm manages for the investors. In Indian context, mutual funds and hedge funds form a large constituent of AUM and outcomes of studied conducted on AUM reflects the trends in their operation and management.

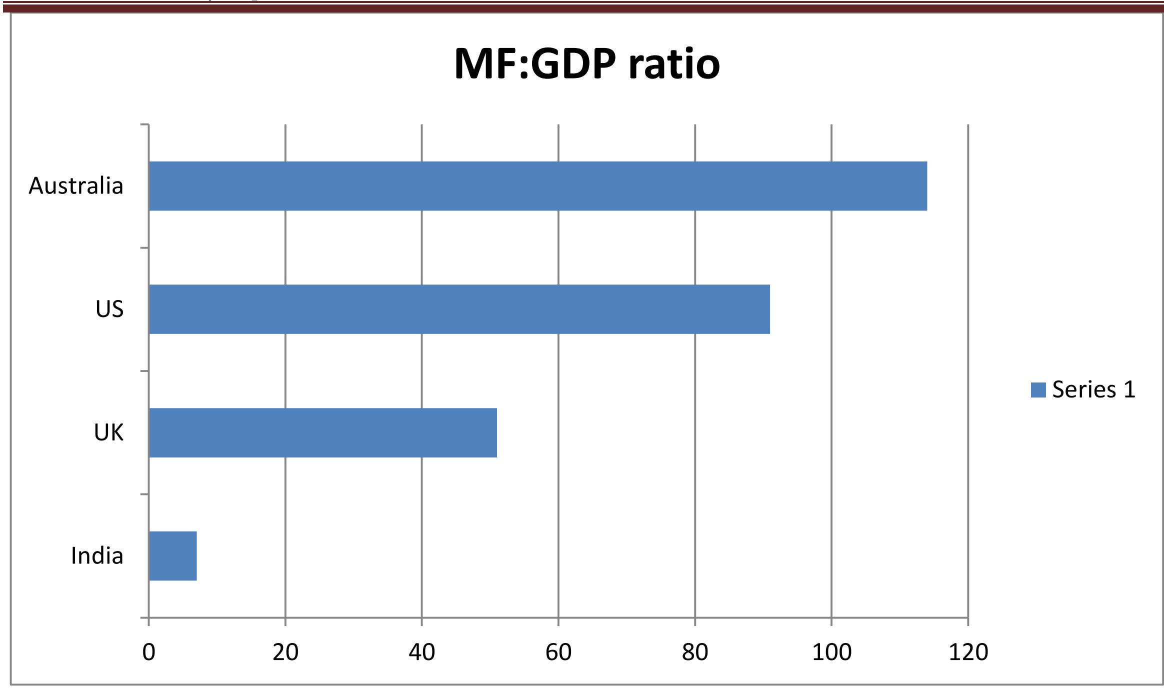
A PricewaterhouseCoopers paper from which the SEBI report draws critical inputs also establishes how lop-sided the concentration of wealth in mutual funds is in the country. The paper – *Mutual Funds 2.0, expanding into new horizons* [7] – brings out the skewed investment pattern in the country where the Top 15 (T-15) cities have a controlling stake in the AUM.

The report found out that ten Indian states contribute 92% of the total investment value of the country's AUM. Out of this the five Metros alone constitute around 75% of the AUM share. Maharashtra grabs the lion's share of 44%, followed by Delhi at 11%, Bengaluru, Chennai and Kolkata accounting for the remaining share out of 75%.

A study conducted on behalf of the SEBI, *Penetration of Mutual Funds in India: Opportunities and Challenges* [8], endorses the PWC findings. It reported that just 60 districts accounted for the total mutual fund investments in the country. Mumbai, the report said, accounts for a lion's share of the investments made in the financial instrument.

The aforementioned cases are revealing of the low brand presence among the target group of working population in the country. They also tell that the penetration levels of mutual funds as a product in tier 2 cities and those of the B category towns is far from eliciting a satisfactory response.

Consider this: India has among the lowest mutual fund investments to gross Domestic Product (GDP) ratios in the world, states an *Economic Times* report dated September 29, 2017 [9]. At 7 per cent, the MF:GDP ratio of India pales abysmally in comparison to 114 per cent ratio in Australia, 91 per cent in the United States and 51 per cent in the UK.



The bar graph above underlines how poorly India is placed when it comes to investing in AUM. China is among the countries which are wallowing in the bottom rung of the MF:GDP ratio along with India. This low ratio tells us of the comatose growth in the portfolio untapped potential of the mutual funds in the country. The same report highlights that mutual fund investments accounted for only 3.4 per cent of total financial investments by individual investors in the fiscal 2014-15.

Product Repositioning and Investor Education

The root of this effective investment product's low-key presence in market lies partially in the way it has been advertised over the years and also the low spending on its brand campaign by the companies that offer it. What is the first thing that you remember about an advertisement campaign for mutual funds? It is unlikely that most of us would remember the company that advertised mutual funds or the jingle that sets it apart from competing products in the market. But we must all remember the closing remarks: *Mutual Funds are Subject to Investment Risks. Read the offer document carefully before investing*. So, basically, over the years we have effectively branded the risk-bearing aspect of the product, and clearly not the product itself. Also, several reports have pointed to the abysmal count of human resources pushing mutual fund as a product compared to other financial instruments such as insurance behind the lukewarm growth in the investor portfolio despite a phenomenal spike in the value of the mutual fund investments in the country.
The following steps would help in the course correction of the mutual funds, which with it undeniable features, has the potential to become extremely popular means of investments over the coming years.

a. Increasing the ratio of investors vis-à-vis population: According to the Association of Mutual Funds in India (AMFI), the Indian mutual fund industry was valued at Rs7 lakh crore in

2011. The *Economic Times'* June 29 report [10] states that the mutual fund industry is set to clock Rs94 lakh crore by the year 2025. This is a 500 per cent jump over the current investments valued around Rs20 lakh crore. But the worrying proposition is that the investor with dispensable income isn't aware of mutual funds and it long-term benefits resulting in a marginal section of the working population investing in AUM. Sundeep Sikka, executive director and CEO of Reliance Nippon Life Asset Management, in March this year, tells financial portal *moneycontrol.com* [11] that the priority of his company would be to get at least 10 per cent of the total population to invest in mutual funds. As discussed earlier, the percentage of such investors compared to the population of the country is struggling in single digits. Industrialist Anil Ambani Reliance MF chairman has also lamented the poor reception of mutual funds in the mind of the Indians. He said one out of 25 people in India has invested in a mutual fund.

b. Awareness and education: Originally, mutual funds heralded the way for the small investor to get a piece of the market. But now it's attracting investors from all classes. The extremely poor MF-GDP ratio and the skewed investor mapping in favour of just 5 states is a definitive indicator on the pathetic lack of awareness and education among the people with disposable income about mutual funds as an option of profitable investments. The SEBI backed study suspected that the low demand of mutual funds outside the major (T-15) cities could be because of any of these factors or a combination of them: Low levels of financial literacy, cultural attitudes towards savings and investments, and lack of awareness about mutual funds. Awareness and education drive has being finally undertaken as a collective effort by the Association of Mutual Funds of India (AMFI), which is now aggressively pushing mutual fund as an investment product, particularly in the B15 cities and the rural areas. There are 42 Asset Management Companies registered with SEBI. As of now, all 42 of them are members of AMFI.

c. Increasing human resources, incentives for pushing MF as a product: One of the major handicaps that has come to haunt the mutual fund industry is the lack of human resources who can push the product in the competitive market. Once again, the SEBI backed study found that low number of agents (per capita) in sub-urban and rural areas and the slow growth rates in mutual fund sales in the corresponding areas are closely associated with each other. Put simple, it means that lack of agents is a hindering factor in marketing mutual funds. *Economic times* [12] reports that only an bigger network of distributors can handle the growth expected in AUM which is projected to exponentially grow by 5 times its current value by 2025. Addressing an AMFI summit in Mumbai, vice-chairman and Union MF chief executive G Pradeep Kumar said the projected growth of Rs 94 lakh crore AUM and the spike in the folio count to 13.3 crore by 2025 can be made possible only if the industry increases the number of distributors by almost 10 times to over 6 lakh from its current level of 86,000. Compared to this the insurance sector has 2.5 million agents leaving a huge gap between marketing of the two instruments.

d: Fresh look at the product advertising campaign: Mutual Fund as a product has been betrayed by myopic advertising campaign until recently when the AMFI took over the reins of product branding through a collective approach hinged around educating the end user. According to *PersonalFN.com* [13], mutual funds are supposed to spend 0.02% of their total AUM on investor education.

To address the lack of awareness among masses and correct the negative perception of the AUM SEBI mandated mutual fund houses to transfer half the corpus maintained for investor education to AMFI making it the nodal agency for disbursement of information about mutual funds. As a culmination of efforts in this direction, AMFI launched its most elaborate campaign at repositioning mutual fund in the investor mind this year. The campaign with the tagline "*sahi hai* (it's the right thing)" is an investor outreach programme by the body of mutual fund houses that aims to change the perception of the mutual fund in the target group of potential investors.

Conclusion

Mutual fund, despite being a potent instrument of driving investments and creating wealth, is a laggard in India in terms of brand perception and investment ratio vis-à-vis population and GDP, respectively. The worrying part is that equity assets have that have jumped from Rs3 lakh crore In 2007 to touch base at R20 lakh crore in 2017 have failed to improve the portfolio count in similar proportion.

A 2014 *Neilson report* [14] cites the biggest battle for mutual fund companies is that of perception. "Mutual funds are not well received because consumers do not perceive them as high-performance investments," it says and goes on to add, "Positioning them as a safe way to invest in the stock market and highlighting past performance are key ways to shift those perceptions." The AMFI effort in this direction, although delayed, is a welcome move to educate the investor who has been confounded with the traditional investment sectors either caught in a slowdown or going through a volatile period post-demonetization and rollout of Goods and Service Tax (GST).

The mutual funds will need to beef up their resources, both human and infrastructure, to counter the deep pockets and large network of field agents of the insurance firms to achieve the one end that all business house leaders are talking about: Breaking the perception jinx by getting at least 10 per cent of the population to invest in mutual funds. The way AUM beat conventional investment sectors after demonetization, the hope of mutual funds rallying past the inflection point is a reasonable possibility.

References:

[1] https://rbi.org.in/scripts/MSM_FinancialisationofSavings.aspx

[2] http://www.thehindubusinessline.com/markets/demonetisation-mutual-funds-gold-real-estate/article9814407.ece

[3] http://economictimes.indiatimes.com/markets/commodities/news/gold-etfs-register-rs-300-cr-outflow-in-apr-aug-fy18/articleshow/60476449.cms

[4] http://www.wealthideas.in/impact-of-demonetization-on-mutual-funds/
[5] http://www.livemint.com/Politics/WRTgYztM2cSiT0deLmMWjN/Demonetisation-effect-91-million-new-taxpayers.html
[6] https://www.mysiponline.com/investment-tips/demonetisation-the-game-changer-for-mutual-fund-industry

[7] https://www.pwc.in/assets/pdfs/publications/2017/mutual-funds-2-0-expanding-into-new-horizons.pdf

[8] http://www.sebi.gov.in/sebi_data/DRG_Study/OpportunitiesChallenges.pdf

[9] http://economictimes.indiatimes.com/mf/mf-news/india-has-among-the-lowest-mf-gdp-ratios-globally-report/articleshow/54440169.cms

[10] http://economictimes.indiatimes.com/mf/mf-news/amfi-sees-aum-crossing-rs-94-trillion-by-2025/articleshow/59372557.cms

[11] http://www.moneycontrol.com/news/business/mutual-funds-business/mf-industrys-target-get-10population-to-investfunds-1059835.html

[12]http://economictimes.indiatimes.com/articleshow/59372557.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

[13] https://www.personalfn.com/fns/how-mutual-fund-advertisements-can-be-highly-misleading

[14] http://www.nielsen.com/in/en/insights/reports/2014/building-the-mutual-fund-market-in-india.html