

Metamorphosis of Indian Mutual Fund Industry – A study with reference to Digital Technology and Evolving Investor's Behaviour

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ABSTRACT

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Indian Mutual fund Industry has been taking a new shape after going in to various transformations. These transformations are keenly observed by the regulator because he can take necessary steps with in no time if, any new change affect the investors negatively. This safety provided by Regulator to its investors is influencing the investors to consider Mutual funds as their Investment Avenues. In this regard objectives of paper are set as under: 1. Impact of digital revolution on mutual fund industry; 2. Market transformation of mutual fund industry or sector 3. Difficulties which mutual fund industries may encounter in the path of growth in near future and 4. Offer Suggestions for the betterment of the Indian mutual fund industry. Author has collected information from primary and secondary sources. Like structured questionnaire (primary), reports, articles, newspapers and web resources for secondary sources.

Keywords: Transformations, Regulator, Mutual Fund

1. Introduction

There is a ancient saying or maxim that, only change is permanent and constant in this world. This saying is applying to mutual fund industry also. The word metamorphosis means physical or structural changes. Metamorphosis of Indian Mutual Fund Industry refers to recent changes and developments in mutual fund sector/ industry in India and it is emerging from its original grey cocoons as beautiful butterflies that will fly investor's investment returns higher than ever. Only those Asset management companies who have adapted themselves to the metamorphosis of this Indian mutual fund industry have sustained and others vanished from Mutual fund industry from India like Goldman Sachs JP Morgan, Morgan Stanley, ING, Fidelity.

Over many years the Indian Mutual Fund Industry is a spectator for various changes like physical, structural change and trend change. But fortunately, SEBI being a regulator of Mutual fund industry in India, is continuously watching these changes in on different perspectives and makes sure that, any changes in any corner of the industry should not affect the or impact the investors interest adversely. Consequently, this act of SEBI is positively influencing the investors and they are considering mutual funds as one of the investment avenues. Fin Tech Fusion, convenient demographic factors, Positive attitude of investors towards mutual fund, increasing disposable income, are the prime factors which are responsible for Growth of mutual fund industry in India. But along with the Growth, there are some challenges also persist. If challenges are converted in to opportunities, then automatically, the mutual fund industry will be more aggressive and competitive in nature.

2. Review of Literature

Karan Singh (2022) found that mutual fund managers or fund managers are under the huge pressure to attain conformity with complex rules and transparency requirements. Thus, along with his boss, his colleagues, investors,

Media and even regulators will criticise his work. In this situation of increasing work pressure but decreasing rewards, definitely these fund managers will hunt for new alternatives. According to some research, over 75% of Fund managers has left the Mutual fund industry. From this we can analyse that retaining a required talent has become need of an hour for this sector.

Siddhalingappa (2022) A noteworthy alteration has been seen by mutual funds in Indian scenario. Once Upon a time mutual funds were most neglected or unnoticed investment avenue. but now people are considering it as one of the significant investment avenues to reap the benefits of stock market without having the knowledge of that. In the present day, investors are showing much more interest in index funds this has resulted in many more changes in mutual funds sector.

Madhumathi (2023) opined that, Prospects of investing in mutual fund in India may look bright with acceptance of new technology by Indian population. New Fintech companies are providing its positive contribution towards growth of mutual fund investments in india.

Sidharth Patel (2023) has given some suggestions to investors about considering mutual fund as investment avenues and investing particularly in passively managed ELSS Because the author believes that, this fund is still in its early stages No one can predict its growth in future days. So,it's better that new investors avoid ELSS funds.

According to ICRA Analytics Ltd. (2023), the Indian mutual fund industry is experiencing a aaccelerated investment through SIPs, an upswing in ETFs, an enhanced significance on ESG funds, anda sudden increase in digital usage. These developments are influencing India's mutual fund market and are projected to plough on.

Rukmini Nair (2020) opined that there is a war going on between many big mutual fund AMC's, having about 80% of assets of the industry under their control and the new babies, or newly started AMC's. This battle between these two will create the Auspicious situation for both existing and new investors.

Jai Singh (2023) observed that a Currently, mutual fund distribution environment is being hit by a huge wave of transformation. the factors like technical advancements, regulation changes, and changes in the investor taste are providing fuel for this wave. Present day investors are likely to invest directly more than through the distributors. This can be concluded as traditional financial channels are changing.

3. Methodology

Researcher has collected data from both primary and secondary sources.To collect secondary source data, Researcher has referred some topic related articles, reports, magazines, newspapers and web materials. In order to get primary data, the researcher has contacted the mutual fund distributors, some officials of the AMCs in the area and some investors in the area and had face to face conversation with them.

3.1 Sampling procedure

After collecting list of mutual fund investors in the area from mutual fund distributors, Researcher has employed Judgemental sampling method to collect data from the investors.

3.2 The Area of study.

Shivamogga District of Karnataka state has been selected as the area of study.



3.2 Objectives of the Study

The Article has following objectives

1. To understand impact of digital revolution on mutual fund industry.
2. To emphasise on market transformation of mutual fund industry or sector
3. To inspect the difficulties which mutual fund industries may encounter in the path of growth in near future
4. To suggest possible solutions for the growth of mutual fund industry in India.

4. Discussions and Observations

In this section, four sub-sections are incorporated for the sake of convenience of the readers, namely,

- (i) Impact of digital revolution on mutual fund industry;
- (ii) Market transformation of mutual fund industry or sector and
- (iii) Difficulties which mutual fund industries may encounter in the path of growth in near future
- (iv) Suggestions for the betterment of the Indian mutual fund industry.

4.1 Impact of digital revolution on mutual fund industry

Investors behaviour, particularly the younger generations investors, have been positively affected by the digital transformation of mutual fund industry. Mobile apps and online platforms are majorly used to invest in mutual funds by the new generation investors who are known for their tech-savvy nature. The features of digital investment platforms like easy accessibility, its user-friendly nature and the convenience have made it accessible to the wide range of population. We can say COVID-19 Has acted as blessings in disguise to these digital platforms to be accepted by the new generation investors, because This pandemic had made the investors to understand the importance of maintaining a disciplined approach towards a long-term wealth creation maintaining the diversified portfolio. The knowledge about these factors influences directly or indirectly for the new investors to consider mutual fund as one of their investment avenues.

Indian mutual fund industry has accepted the concatenation of new technologies within it, which expeditious innovation and growth of the industry. Researcher opines that the mutual fund sector has been transformed by Fintech Fusion which has organised the mutual fund operations very well which resulted in increasing customer experience and satisfaction, extend investment opportunities. The Fintech has brought a transformation in the Indian Mutual Fund industry by transferring or modernising the traditional process of investment and also played a catalyst role in increasing the investment in mutual funds Being more efficient technologically advanced landscape.

There is an ideal shift in the way of making investment and managing it after the integration of digital technology in the mutual fund operations. As a result, mutual fund companies are providing a hassle free platforms to invest, to redeem their investment flawlessly to their investors. By reducing the paperwork, transaction times and increasing the efficiency in managing portfolios. It can be seen when we compare the digital transactions before 10 years, It was about only 1% of transactions Now has increased to 21% of total transactions. Usually this trend is followed by the young generation investors who are tech savvy in nature.

A significant role has been played by the fin tech companies in expanding the investment landscape in India with the help of innovative products, services which are serving the diverse needs of the investors. After Noticing the growth of online stock broking sector, The researcher opines that fintech companies have become the primary distributors of mutual fund in India Groww, AngelOne and PhonePe are key players in the industry, contributing significantly to the addition of new SIPs every month.



Fintechs emerge as top mutual fund distributors

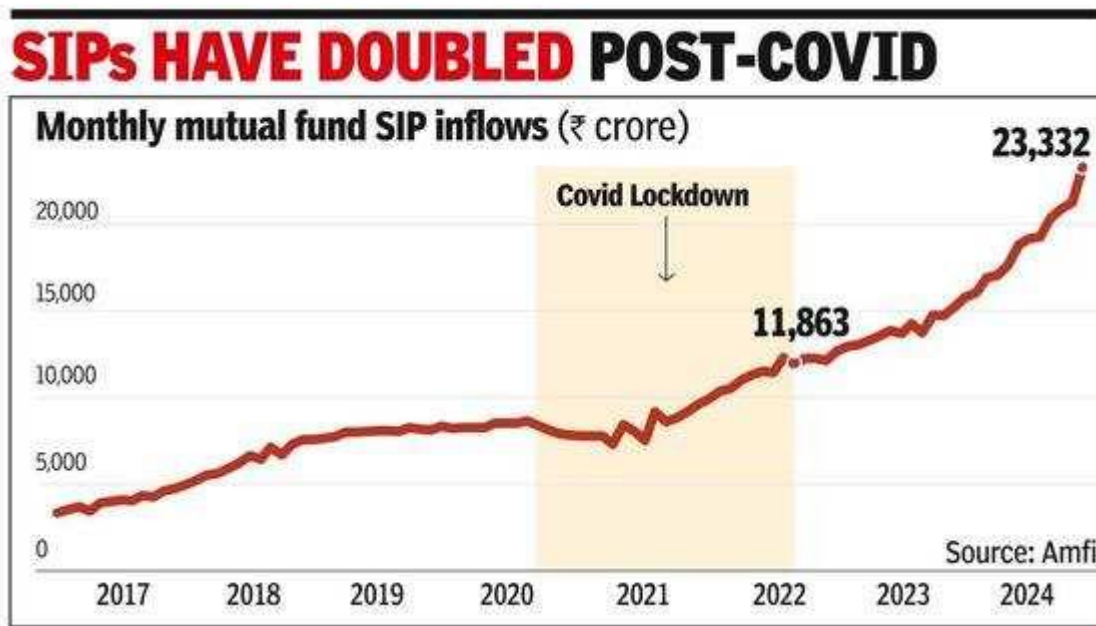
	November 2022	October 2023	November 2023
Groww	360,981	713,615	701,093
AngelOne	14,479	198,027	217,121
PhonePe	99,607	126,979	121,635
NJWealth	156,129	271,477	154,029
State Bank of India	128,554	214,346	114,453
Paytm Money	76,045	79,270	76,657
ETMoney	53,574	57,416	66,866
Overall Industry	NA	3,466,000	3,080,000

Source: AMFI, ET Research

Source: The Economic Times, By Pratik Bhakta, Jan 09, 2024,

4.2 Market transformation of mutual fund industry

1. Today’s investors have a better knowledge about the products they Have their own expectations about the features of the product as a result these new generation investors does not give importance to brand loyalty instead of that They consider good product which suits their needs and Investment objectives.
2. New generation investors are more aware about the benefits of SIP. When a researcher spoke with a investor of the area, they preferred to invest in mutual fund through sip, rather than investing one time. They believe that effect of fluctuations in the stock market can be minimised by investing in SIP. These changes can be justified with the help of the reports of AMFI and times of India.



Source: Times of india

AMFI report on SIP’s

Month	Total No. of outstanding SIP Accounts	No. of New SIPs registered	No. of SIPs discontinued/tenure completed	SIP AUM ₹ crore	SIP Contribution ₹ crore
Apr 24 - Aug 24	961.36	305.08	183.43	13,38,945	1,09,416

Aug 24	961.36	63.94	36.54	13,38,945	23,547
Jul 24	933.96	72.62	37.33	13,09,385	23,33
Jun 24	898.67	55.13	32.35	12,43,792	21,262

May 24	875.89	49.74	43.96	11,52,801	20,904
Apr - 24	870.11	63.65	33.25	11,26,129	20,371

3. Traditional investors were considering only the performance of the fund before investing. But as we have mentioned above present new generation investors want a different feature which are suiting for their investment objectives in the particular product. It may be user friendly communication, Excellent after sales service, consistent out performance by the fund, etc
5. New generation investors are inclined towards passive investing through index fund. It is gaining more popularity in India through its mimicking performance of stock market index. It may be due to the transparency and minimum risk provided by these index funds.
6. One more new theme is attracting more funds towards it by the New Generation Investors. That is called ESG (Environmental, Social, and Governance) or ethical investing. More number of new generation investors are investing their money in such a company which are following Social ethics environmental ethics as well as ethics in governance.
7. A decade back, if we see people of metropolitan cities were preferring mutual fund as their investment avenue. Then it was on the head of mutual fund companies to extend their business towards tier two and tier three cities. We can say now this turret has been accomplished successfully by the mutual fund companies As a financial literacy has grown among the population of tier 3 and tier 2 citis their awareness towards mutual fund has increased. As a result, we can see the investors of mutual fund in tier two and tier three cities. According to Assocham report of March, 2023, B30 cities have accounted for 17% of total mutual fund AUM.
8. In order to address the distributors as well as investors interest the SEBI has pushed the use of full trial commission model which put an end to up front commission and uplift the transparency Which in turn ensure the investors to get most out of their investment in mutual funds. Upper Front Commission was one-time payment paid by AMC to the distributors when he sells a a mutual fund scheme to an investor.
9. TheNational Automated Clearing House (NACH) has released a circular on August 18th2023 with respect of mutual fund which came in to the effect from October 1, 2023.which put an end to the perpetual SIPs. According to this circular the mutual fund SIPsCannot be continued for more than 30 years from the date of its issuance. It is obligation to write the end dates of that particular mutual fund investment at the time of applying for SIP itself. However this circular is not having retrospective effect as a result Theperpetual SIP existing before this cut off date will be continued as usual.
10. The Risiko meter a new invention of SEBI especially for the investors, which will help them to evaluate level of risk of their chosen mutual fund schemes. The SEBI has developed and implemented this Riskometer in January. 2021. It is more helpful to understand whether investors are having conservative behaviour or Moderate behaviouror Aggressive behaviour at the time of taking risk and Which will enable them to choose the mutual fund schemes according to their risk profile.

4.3 Difficulties which mutual fund industries may encounter in the path of growth in near future

ULIPs or Unit-linked insurance products are posing biggest threat / challenge to mutual fund industry in India, as it has double advantage like life cover of investor and long-term return potential. As India is a country of villages with wast geographical rear, its difficult to make a contact with investors of small village. Even if AMC's are successful in convincing them to invest in mutual fund, AMC has to bear huge distribution cost which will impact on their profitability. Corporate investors usually invest in liquid funds that too for shorter duration, for these investors stamp duty is a major concern. At the time of calculating long term capital gains, Indexation benefit will not be provided for mutual funds which invest less than 35% of their proceeds in domestic companies' equity

shares. As per Union budget 2024, Short term capital gains are taxed at individually applicable tax slab of each investor where as Long term capital gains are taxed at 12.5% without indexation. Other major change was, to consider an asset as long term asset; the holding period of debt mutual fund was reduced to 24 months from 36 months. These changes may results in reduced attraction of such funds.

Other truth we have to accept that, in this modern marketing era, where we consider “customer is king”, mutual fund industry is still product centric than customer or investor centric in its approach. It has resulted in death of innovation of new products according to needs of the investors and also replicating of same product features in many AMCs.

As we know, India is land of many languages. So it's better to explain the concept of mutual fund tom the prospective investor in his own language in order to convince him to invest in mutual fund. It needs a well trained Mutual Fund Distributors (MFDs). This itself is a huge serious challenge to Indian mutual fund industry. Because, there is no enough number of well trained Mutual Fund Distributors available in India to cover this vast geographical area with respective local language. If this challenge is not properly addressed, MFDs may mislead the prospective investors without proper training or not knowing the local language. AMC should always remember that retaining current customers is just as important as getting prospective customers.

4.4 Possible solutions for the growth of mutual fund industry in India.

1. Increased focus on Investors based products

As it is discussed above that, even in this modern era, mutual funds are still focusing on product. It is a need of an hour that, AMCs must divert its focus from product to clients and develops the mutual fund products according to needs of the investors, which will avoid the duplicate products in every AMCs.

2. Focus on Increasing number of MFDs

As we know that, present number of mutual fund distributor is not enough to expand the investor list of mutual fund in India. Therefore AMCs must focus on increasing number of well trained MFDs (Mutual Fund Distributors) by encouraging especially local people of that area to become a MFDs. So that they can educate the people about mutual funds in local language, this may increase the investor's base of mutual funds. Because maximum number of people avoid investing in mutual fund, without understanding it, and confusing it with stock market and Gambling.

3. Streamlining of KYC Process.

Present KYC process in India is considerably standardised and simplified but still it is throwing some challenges to many investors like records of old investors (invested long back in mutual funds) had completed KYC using documents not with PAN or Aadhaar card are cannot be re validated automatically. They have to do Re KYC process using PAN or Aadhaar card now. Sometimes, KYC process will be rejected automatically due to mobile or email id are not validated or PAN is not linked to Aadhaar card ect., therefore it is need of an hour that KYC process should be streamlined to increase the Investor base.

4. AMCS focus on Financial Literacy of its investors.

As we understand by his time that, maximum number of people avoid investing in mutual fund, without understanding it, and confusing it with stock market and Gambling. So it is duty on the part of AMCs to educate its investors about financial avenues available in the financial markets and eventually convince them to invest in mutual funds.

5. Make use of Fintech Platform Services

Fintech platforms are excellent opportunity for AMCs to reach wide investors base by providing innovative solutions to distinct quarries of the investors. These creative platforms are considered as growth engines for mutual fund industry of India. So AMCs must utilize the services of these Fintech platforms.

Conclusion

To conclude, when we can look into the changing preferences of investors, widening of financial environment with advancement in technology, makes mutual fund sector a investor friendly and also provides range of investment

avenues to investors, So We can say that, Mutual fund is definitely have bright future in India. AMFI's Campaign which states "Mutual Fund Sahi Hai" has undoubtedly increased responsiveness of Investors towards mutual fund.

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