Available online at www.elixirpublishers.com (Elixir International Journal)

Finance Management

Elixir Fin. Mgmt. 90 (2016) 37292-37299

ISSN: 2229-712X

Mutual Funds in Financial Inclusion an Indian Scenario

Prasanna Kumar Baral
Department of Commerce, SAI International College of Commerce & Economics(SICC), 5-A Chandaka Industrial Estate, Infocity Road,Chandrasekharpur, Bhubaneswar, Odisha, India.

ARTICLE INFO

Article history:
Received: 1 April 2015;
Received in revised form:
24 December 2015;
Accepted: 29 December 2015;

Keywords

Financial Crisis,
Mutual Fund,
Financial Inclusion,
Layoff,
Volatility.

ABSTRACT

The recent past ongoing string of financial crisis across the globe resulted in rising inflation, slowdown in industrial productivity, layoff of industrial units and job cuttings leading to being shaken the financial markets; both equity and debt markets. The prevailing volatility in different financial markets all over the world lead to dent in the capital market performance, challenging mutual fund industries to show consistent performance against the prevailing adverse situation. Mutual Fund Industry was able to go ahead of the market trend. The increasing trend of Indian Mutual Fund Industry bears witness to the fact that it is attracting more and more investors and winning the confidence of the investors. The fund houses are coming with innovative and low-cost products to attract the common masses, so as to contribute towards financial inclusion. The present paper is divided into three parts; the first part highlights the financial inclusion in India, second parts explains the role of mutual funds towards achieving the financial inclusion and third part contains the challenges faced by mutual funds and the action plan necessary to be taken by mutual fund industry to bring financial inclusiveness.

Introduction

Financial Inclusion is the new global buzzword in academic research, public policy meeting and seminars. Finance is the most prominent factor for growth and development. It is now attributed as the brain of an economic system and most economies strive to make their financial systems more efficient. It forced the policymakers to take careful and judicious decisions as any problem in this sector could freeze the entire economy and even lead to a crisis. The earlier research focused on how finance helps an economy. Now, research shows that financial inclusion is as important. The new task for research in finance is - making financial inclusion workable. So, financial inclusion has become an important organ of economic development process.

The Indian mutual fund industry is poised to play a significant role by harnessing the emerging technological innovations and regulatory measures. Like banks, mutual funds will eventually become a significant part of the Indian Financial System and therefore, a part and parcel of the life of the common investor. As a part of financial inclusion mutual fund will play a very pivotal role and will certainly contribute a lot towards this noble goal.

Objectives of This Study

1: To know the role of Financial Inclusion in economic development of India
2: To know the role of Mutual Fund in financial inclusion
3: To know the major challenges and issues of mutual fund industry
4: To know the necessary action plan to be taken by the mutual fund industry in India in bringing financial inclusiveness.

Research Methodology

The data for the study has been derived basically from secondary sources. The secondary sources include, internet, journals, magazines, books, publications of various research agencies like, KPMG, Pricewaterhousecooper, ALW,etc. and RBI Report. The data has been properly analysed and interpreted to draw conclusion and inferences.

Financial Inclusion: An Overview

According to Rangarajan's committee on financial inclusion 2008,"Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost."

"Financial Inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost. in a fair and transparent manner by mainstream institutional players".(Dr.K.C.Chakrabarty, Deputy Governor, Reserve Bank of India)

In advanced economies, Financial Inclusion is more about the knowledge of fair and transparent financial products and a focus on financial literacy.

In emerging economies, it is a question of both access to financial products and knowledge about their fairness and transparency.

Financial Inclusion: Why it can't happen on its own?

No doubt, the financial inclusion is an important factor of economic development. But, the problem is that it can't happen on it's own like any other service or product. We need to make a policy to bring it happen. The reasons behind this are;-

Financial exclusion

It has been found that financial services are used only by a section of the population. There is demand for these services but it has not been provided. The excluded regions are rural, poor regions and also those living in harsh climatic conditions where it is difficult to provide these financial services. The excluded population then has to rely on informal sector (moneylenders etc) for availing finance that is usually at exorbitant rates. These leads to a vicious cycle. First, high cost of finance implies that first poor person has to earn much more than someone who has

Tele:
E-mail addresses: pkb_mfc@rediffmail.com

access to lower cost finance. Second, the major portion of the earnings is paid to the moneylender and the person can never come out of the poverty.

High cost

It has also been seen that poor living in urban areas don't utilize the financial services as they find financial services are costly and thus are unaffordable. Hence, even if financial services are available, the high costs deter the poor from accessing them.

Non-price barriers

Access to formal financial services also requires documents of proof regarding a person's identity, income etc. The poor people do not have these documents and thus are excluded from these services. They may also subscribe to the services initially but may not use them as actively as others because of high distance between the bank and residence, poor infrastructure etc.

Behavioural aspects

Research in behavioural economics has shown that many people are not comfortable using formal financial services. The reasons are difficulty in understanding language, various documents and conditions that come with financial services etc.

The above reasons show that it is not enough to assume that financial inclusion will happen on its own. Therefore, the onus has come on to the policymakers to provide the same.

Dr. Vijay Kelkar, Chairman, Finance Commission in NP Sen Memorial Lecture at Hyderabad (dated 13/1/08) said financial inclusion is a quasi public good:

"Increasingly, in developing countries access to finance is positioned as a public good, which is as important and basic as access to safe water or primary education. The pertinent question to ask here is whether 'Financial Inclusion' can be construed a public good? A good is considered a 'public good' if it meets the conditions of non rivalness in consumption and non-excludability. The degree of 'publicness' in 'financial inclusion' maybe different from the stand point of a typical public good like say 'defense', but there is little doubt that financial inclusion meets the above two criteria to a large measure and to that extent is a "quasi public good"Financial Inclusion in India: Some Insights.

The process of financial inclusion in India can be broadly divided into three phases.

The First Phase (1960-1990)-the focus was on weaker sections of the society.

The Second Phase (1990-2005)-focused mainly on strengthening the financial institutions as part of financial sector reforms. Financial inclusion in this phase was encouraged mainly by the introduction of Self-Help Group (SHG)-bank linkage programme in the early 1990s and Kisan Credit Cards (KCCs) for providing credit to farmers. The SGH-bank linkage programme was launched by National Bank for Agriculture and Rural Development(NABARD) in 1992,with policy support from Reserve Bank of India, to facilitate collective decision making by the poor and provide 'door step" banking.

The Third Phase (2005 onwards): the "financial inclusion" was explicitly made as a policy objective and thrust was on providing safe facility of savings deposits through "no frill" accounts.

A statistical view of Financial Inclusion is as under:

Financial Inclusion in India: A Survey

A financial inclusion survey was conducted by World Bank team in India between April-June, 2011 which included face to face interviews of 3,518 respondents. The sample excluded the north-eastern states and remote islands representing approximately 10 per cent of the total adult population. The results of the survey suggest that India lags behind developing countries in opening bank accounts, but is much closer to the global average when it comes to borrowing from formal institutions. As per the following Table 1 in India, 35 per cent of people had formal accounts versus the global average of 50 per cent. In India 12 percent of people were using formal savings accounts against the global average of 22 percent. Only 2 percent of total population were having credit card, where as globally 15 percent of people were using credit cards. In India only 7 percent of people were purchased health insurance policy versus the global average of 17 percent.

Table 1. Financial Inclusion in India: A Survey

	Share with an account at a formal financial institution			Adults saving in the past year		Adults originating a new loan in the past year		Adults with a credit card	Adults with an outstanding mortgage	Adults paying personally for health insurance	Adults using mobile money in the past year
	All adults	Poorest income quintile	Women	Using a formal account	Using a community-based method	From a formal financial institution	From family or friends				
1	2	3	4	5	6	7	8	9	10	11	12
India	35	21	26	12	3	8	20	2	2	7	4
World	50	38	47	22	5	9	23	15	7	17	7

Source: Asli Demirguc - Kunt and Klapper, L. (2012): 'Measuring Financial Inclusion', Policy Research Working Paper, 6025, World Bank, April

Financial Inclusion Plans

The Financial Inclusion Plans(FIPs) of banks contained self-set targets in respect of opening of rural brick and mortar branches, deployment of business correspondents (BCs), coverage of unbanked villages through various modes, total Bank Outlets (including RRBs), opening of no-frills accounts, Kisan Credit Cards (KCCs) and General Credit Cards (GCCs) to be issued etc.

Coverage of Unbanked Villages

As per the Table 2 banks have, up to March 2012, opened banking outlets in 2.95 lakh villages up from 1.08 lakh as on March 2010. Out of these, 24,701 villages have been covered through brick-&-mortar branches against 21,475 villages in 2010 showing an increase in number of villages of 3,226. As on March 2012, 1,20,355 villages have been covered through BC outlets against just 32,684 villages in March 2010 showing a total increase of villages of 87,671.Similarly,2,478 villages in 2012 have been covered through other modes like mobile vans, etc. against just 99 villages in March 2010.

Total Bank Outlets (including RRBs)

As per Table 3 total number of banking outlets in villages increased from 67,694 in March 2010 to 2,68,454 in March 2013 (increased around 4 times during the period of three years). Of total branches, banking outlets through BCs increased from 34,174 to 2,21,341 during the same period (increased around 6.5 times).The total banking outlets branch in village increased from 33,378 in March 2010 to 40,837 in March 2013 (increased around 1.2 times).

BSBD (Basic Savings Bank Deposit) Accounts Opened

As per Table 4 the number of BSBD accounts opened increased from 73.45 million (of Rs.55.02 crores) in March 2010 to 182.06 million(of Rs.182.92 crores) in March 2013.

Opening of No-Frill accounts

The Annual Policy Statement of the RBI in the financial year 2005-06 called upon Indian banks to design a 'no frills account' – a no precondition, low 'minimum balance maintenance' account with simplified KYC (Know Your Customer) norms. As per RBI directive no-frill account were introduced by different Indian banks. As per the following Table 3 as on March 2012, 105.5 millions No-frills accounts have been opened by banks with outstanding balance of Rs.93.3 crores. These figures, respectively, were 50.3 millions and Rs. 42.6 crores in March 2010, showing a variation of 55.2 millions and Rs.50.7 crores as on March 2012 against March 2010.Similarly, as on March 2012, 1.4 millions No-frills accounts with overdraft have been opened by banks with outstanding balance of Rs.0.6 crores. These figures, respectively, were 0.1 millions and Rs. 0.1 crores in March 2010.

Kisan Credit Cards (KCCs)

The Kisan Credit Card is a pioneering credit delivery innovation for providing adequate and timely credit to farmers under single window, with flexible and simplified procedure, adopting whole farm approach, including the short-term credit, medium term and long term credit needs of the borrowers for agriculture and allied activities and a reasonable component for consumption needs.Kisan Credit Cards to small farmers have been issued by banks. As per the following Table 4, as on March 2013, the total number of KCCs issued has been reported as 33.79 millions with a total amount outstanding to the tune of Rs.2,622.98 crores. These figures, respectively, were 24.31 millions and Rs.1,240.07crores in March 2010, which shows a variation of 9.48 millions and Rs.1,382.91crores as on March 2013 against March 2010.

General Purpose Credit Cards (GCCs)

Banks have been asked to consider introduction of a General Purpose Credit Card (GCC). The GCC holder is entitled to draw cash from the specified branch upto the limit sanctioned. Based on assessment of income & cash flow of the entire household, total facility for an individual shall not exceed 20% of the eligible production loan limit in case of persons cultivating land and/or 20% of annual income of the applicant from known sources or `25,000/- whichever is less. Interest rate on the facility is completely deregulated. As per the following Table 5 as on March 2013, banks had provided credit aggregating Rs. 76.34 billion in 3.63 million General Credit Card (GCC) accounts. These figures were Rs. 35.11 billion in 1.39 million General Credit Card (GCC) accounts as on March 2010, which shows a variation of 2.24 millions and Rs.41.23 crores as on March 2013 against March 2010.

ICT Based Accounts through BCs

As per the following Table 6 as on March 2013, banks had provided ICT based Accounts aggregating Rs.233.88 billion in 250.46 million ICT based Accounts. These figures were Rs.6.92 billion in 26.52 million ICT based Accounts as on March 2010, which shows a variation of Rs.3888.97 billion in 490.49 million as on March 2013 against March 2010.

Recent Measures on Financial Inclusion:-

Licensing of New Banks

The present round of licensing new banks is essentially aimed at giving further fillip to financial inclusion efforts in our country. Innovative business models aimed at furthering financial inclusion efforts would be looked into closely in processing applications for banking license. Financial inclusion plan would be an important criterion for procuring new bank licenses (Dr. D Subbarao).

Discussion Paper on Banking Structure in India – The Way Forward

The RBI has put out a discussion paper in August 2013 on Banking Structure for public comments. One of the main issues relates to "Differentiated Banking Licenses". The subject of licensing 'small banks and financial inclusion' has been discussed therein. A view will be taken by RBI after factoring in the comments/suggestions received from the general public.

Pradahan Mantry DhanJan Yojana

PMJDY is a National Mission on Financial Inclusion encompassing an integrated approach to bring about comprehensive financial inclusion of all the households in the country. The plan envisages universal access to banking facilities with at least one basic banking account for every household, financial literacy, access to credit, insurance and pension facility. In addition, the beneficiaries would get RuPay Debit card having inbuilt accident insurance cover of ₹ 1 lakh. The plan also envisages channeling all Government benefits (from Centre / State / Local Body) to the beneficiaries accounts and pushing the Direct Benefits Transfer (DBT) scheme of the Union Government. The technological issues like poor connectivity, on-line transactions will be addressed. Mobile transactions through telecom operators and their established centres as Cash Out Points are also planned to be used for Financial Inclusion under the Scheme. Also an effort is being made to reach out to the youth of this country to participate in this Mission Mode Programme. The following Table 7 shows the Pradhan Mantri Jan-Dhan Yojana (Accounts Opened As on 8.12.2014).

Financial Inclusion: A comparison between India and Other Economies

The Indian population is largely under-banked with a very low level of financial inclusion leaving rooms for further penetration. The Indian capital market witnessed under-penetration due to large amounts is being channelized into gold and real estate sector. The GDP growth has slowed down, sluggish at 5% 2012-13, with savings and investment rates following a downward trend. In 2010-11, the savings and investment rates were 34% and 36.8%, respectively, which declined to 30.8% and 35%,respectively, in 2011-12 and 31.8% and 35.4% in 2012-13.The following Figure 1 shows a comparison of financial inclusion of India with other countries. While the UK and the US have 25.5 and 35.7 branches per 0.1 million adults and developing countries such as Brazil and Austria have 13.8 and 11.8 branches per 0.1 million adults, India is at a appallingly low figure of 10.9 branches per 0.1 million adults. Similarly, the Brazil and the US have the highest No. of ATMs, i.e., 120.6 and 173.8 ATMs per 0.1 million adults against 64.6 and 48.2 No. of ATMs per 0.1 million adults in the UK and the Austria respectively. But, India has miserly 5.4 No. of ATMs per 0.1 million adults.

Mutual Funds and Financial Inclusion

Efficiency, stability, transparency and inclusion, the four critical attributes of financial system play a significant role in the process of financial sector development. Therefore, there is an emergence of intermediation mechanisms and products that will help in improving one or more of these attributes without causing others to weaken.

From this perspective, mutual funds play an important role in development of financial system. By pooling funds of small investors into a common corpus and investing in financial markets, they help in financial inclusion. Mutual fund houses being professionally managed by a group of experts, the investment decision is made in a more rational manner on the basis of analysis of risk and returns of individual investment avenue helping to achieve financial stability. These entities being operated under the close scanner of market regulators, it ensures transparency in investment strategies.

Since the 1990's when the mutual fund space opened up to the private sector, the industry has traversed a long path, adapting itself continuously, to the changes that have come along. Growth in Assets Under Management (AUM) experienced has been unprecedented, growing at a CAGR of 28% over the last four years, slowing down only over the last two years, as fallout of the global economic slowdown and financial crisis. Although investor confidence was significantly eroded and AUMs suffered a dent, the sale of mutual funds has revived over the last few quarters, which implies regained confidence of investors, striving to look at alternate investment opportunities and any attendant higher returns, though the markets continue to be choppy.

In today's volatile market environment, mutual funds are looked upon as a transparent and low cost investment vehicle, which attracts a fair share of investor attention helping spur the growth of the industry. Over time, inclusive growth across the financial sector seems to have taken centre-stage, re-designing all business strategies around this sole objective. The mutual fund industry being no exception, various measures are being taken by fund houses and distributors to spread access and reach to the semi-urban and rural segments.

Mutual funds and Economic development

The recent developments of the past few months triggered by the global financial turmoil have shown that the Indian mutual fund industry is not decoupled from global developments. The following statistics will definitely evidence that inspite of the global economic crisis the benefits of investing in mutual funds is manifold in comparision with directly investing in stocks.

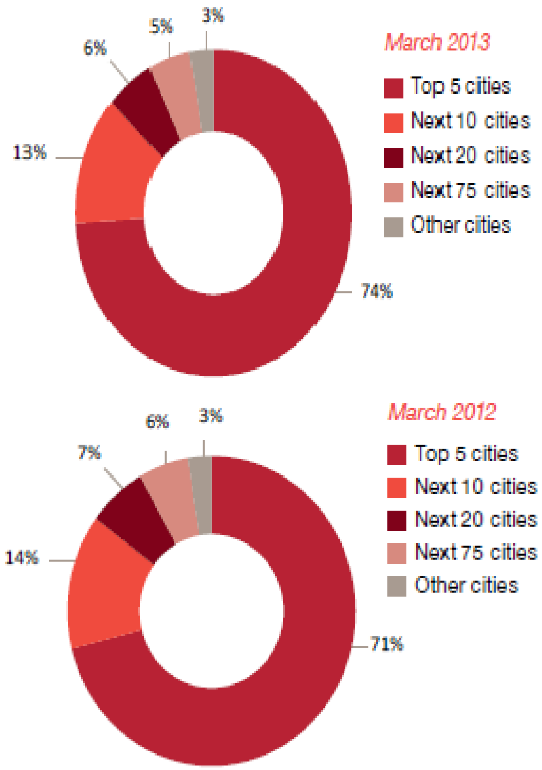


Figure 2. Asset Under Management by Geography as on 31st March, 2013

The above Figure 2 indicates the Assets under Management by Geographical distribution. The mutual fund industry is yet to spread its reach beyond Tier I cities. The top five cities (Mumbai, New Delhi, Bangalore, Kolkata and Chennai) contribute over 74%,with the remaining 26% distributed among other cities. Statistics show that in March 2013,penetration in the five top cities increased to 74% as compared to 71% in March 2012,whereas for cities beyond the top five, penetration has decreased.

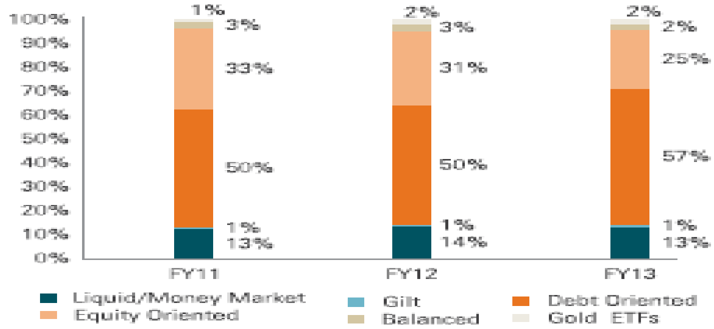


Figure 3. Asset Under Management by investment types as on 31st March, 2013

Source: The Association of Mutual Funds in India (AMFI)

The above Figure 3 indicates the Assets under Management on the basis of split between different investment types. The mutual fund industry is primarily debt-oriented with debt funds (including liquid funds) forming 70% of the AUM in the year 2013 against 64% of the AUM in the year 2012 showing an increase of 10% due to the anticipation of RBI rate cuts and desire for investors to seek a fixed return. At the same time Gold Exchange Traded Funds (ETFs) have grown at an extremely fast pace over the last few years from a much base(CAGR of over 90% from FY10–FY13.These have gained popularity due to the popularity of gold as an Investment for Indians as well as due to the lowering of administrative charges and distribution expenses which makes it easier for the product to be distributed as well.

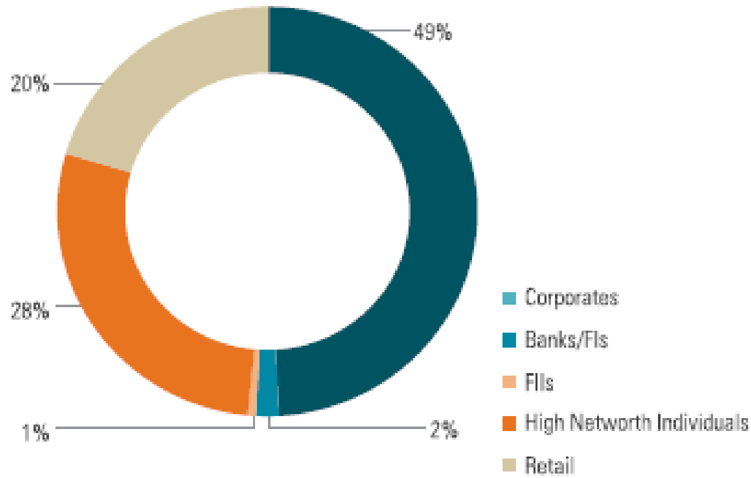


Figure 4. Asset Under Management Mix by investor type as on 31st March, 2013

Source: PWC

The above Figure 4 indicates the Assets under Management on investor wise. Around 49% of AUM is from corporate investors with focus on debt/money market funds for the purpose of short term returns and liquidity management. Retail investors' share of AUM is 20% and is expected to rise driven by increased investor awareness, product penetration and greater distribution reach. High Networth Investors (HNIs) have emerged as the fastest growing investor segment growing at a rate of more than 20% over the period of FY10 – FY13 with a preference for debt oriented funds.

Asset Under Management (AUM)

The AUM which were Rs.24.67 crores as on 31st March 1965 had grown to Rs.8,164,017 crores as on 31st March,2013.The Asset Under Management have grown at a rapid pace at a CAGR(Compounded Annual Growth Rate) of

24.47 percent from 31st March,2005 to 31st March,2010.But there is a fall in growth at CAGR of -3.5 on 31st March,2011 against CAGR of 24.47 percent on 31st March,2010,because of series of global financial crisis. Again the industry got momentum showing a growth rate of 12.24% in March 2012 and finally posted a growth of 23%for the year ended 31st March 2013 (See Table 6).

The industry has grown at a compound annual growth rate (CAGR) of 18% from 2009 -2013 (See Figure 5).

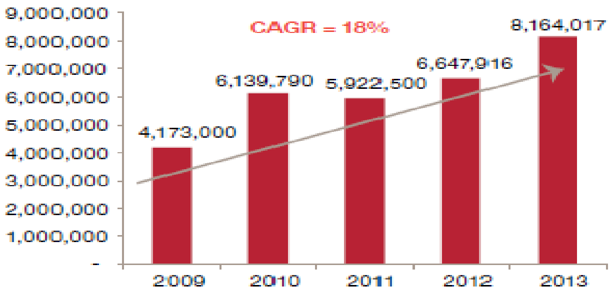


Figure 5. Growth of Average Assets under Management (In mn INR)

(Source: AMFI)

A total of 139 new schemes were launched for the year ended March 2013, generating sales of 236,470 million INR. Furthermore, AUM under the equity segment has actually declined 5%, whereas the debt segment has grown significantly at 36% (See Figure 6), which implies that investors are still wary of investing in the market looking for relatively safer investments by directing their investments into the debt bucket. Assets under management in the liquid and money market and gold exchange traded funds (ETFs) grew by 16% and 18% respectively.

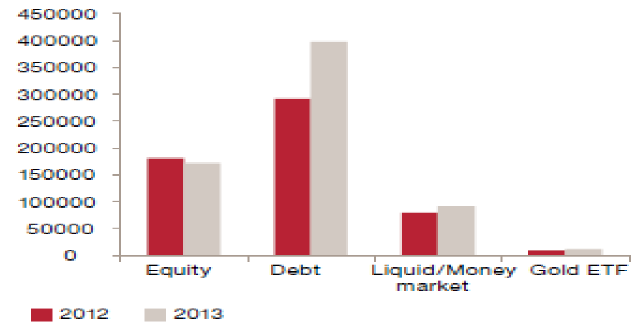


Figure 6. Category-wise Growth in Average Assets under Management (In mn INR)

(Source: AMFI)

India's key mutual fund penetration indicator or AUM/GDP (assets under management/gross domestic product) ratio stood at 7%, ahead of China's AUM/GDP ratio which stood at 5% in 2013, shows a recent report published by ICI Fact Book.USA had the highest AUM/GDP ratio of 83% followed by Brazil (45%) and European Union (41%). The AUM/GDP ratio of the world stood at around 38% in FY 2013 (Table 7).

Share of Mutual Funds in Household Financial Savings

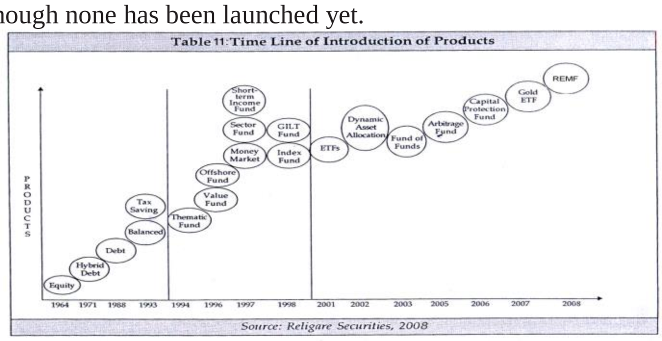
The study made by SEBI has cited low financial literacy and extreme risk aversion of investors for under penetration of mutual funds in India. "The gross domestic savings and investment at current market price by households was 22.3% of GDP 2011-12 (RBI Annual Report, 2012). The household investment in physical and financial assets was 14.3% and 8.0% respectively. The investment in shares and debentures as a percentage of gross financial savings by households was 3.6% during 2011-12. The gross financial savings by household in mutual funds is estimated at 2.5% out of total 3.1% in shares/debentures," says the study.

Profitability of Mutual Fund Industry

The increase in revenue and profitability in the Indian Mutual Fund industry has not been commensurate with the Asset Under Management (AUM) growth in the last five years period, i.e. from 2005 to 2010.The profitability of Asset Management Companies (AMCs) which is defined as PBT (Profit Before Tax) as a percentage of AUM declined from 24 bps in FY 2004 to 14 bps in FY 2008.

Product innovation in Mutual Fund Industry

Since the introduction of mutual fund by UTI, there is a continuing effort by the regulators to add new product to nest of mutual fund investment with a purpose to attract more investors. Starting from equity to Gold ETF a long distance crossed by mutual fund industry in India. In mean time different new products have been introduced, such as tax saving funds, offshore funds, index funds, capital protection funds, etc. In 2007 SEBI permitted Gold Exchange Traded Fund schemes (Gold ETF), which would encourage investors to invest in gold and benefiting from rising gold demand.Thereafter, in April 2008, SEBI announced guidelines for Real Estate Mutual Funds, though none has been launched yet.



Challenges and Issues for Indian Mutual Fund Industry

Though mutual fund industry has shown an impressive growth rate in recent past, there are some key issues and challenges being faced by the industry that are preventing the industry from harnessing its true growth potential. As result of which it's lacking behind the true sense of bringing financial inclusion. The following are the major challenges and issues for Indian mutual fund industry:

- Limited Focus on Increasing Retail Penetration:

The mutual fund industry in India had limited focus on retail penetration. Indian Asset Management Companies are emphasising on targeting the institution investors rather than retail investors. Though retail represents 97.7% of the 4.70 crore investor accounts, it merely accounted for only 25.9% of the AUM. *(As per AMFI data*). Total investor base comprises 45.8% of retail investors including High net worth investors (HNIs) in India against 87% of retail investors (including HNIs) in USA.

- Limited Focus Beyond the Top 20 Cities:

The mutual fund industry has continues to have limited penetration beyond the top 20 cities. Cities beyond Top 20 only comprise approximately 10 percent of the industry AUM as per practitioners. The retail investors residing in Tier 2 and Tier 3 towns, even if aware and willing are unable to invest in mutual funds because of not having easy access to suitable distribution channels and investor servicing.

- Limited Innovation in Product Offerings:

The Indian mutual fund industry has largely been more products oriented and less customer focused. The industry has had a limited focus on product innovation and developments, thereby failing to meet the changing customer needs. Products that specifically linked to customer life stage needs such as, education, marriage and housing are yet to find their way in the Indian capital market.

- Limited Flexibility in Fees and Pricing Structures:

The fee structure in the Indian mutual fund industry enjoys little flexibility unlike developed markets where the level of management fees depend on a variety of factors such as the investment objective of the fund, fund assets, fund performance, the nature and number of services that a fund offers. While the expenses have continuously risen the management fee levels have remained stagnant.

- Low Levels of Customer Awareness:

Low financial literacy level and low customer awareness pose the biggest challenge to channelizing household savings into mutual funds. According to IIMS Dataworks data, low awareness level among retail investors has a direct bearing on low mutual fund penetration in the retail segment.

- Limited Focus of the Public Sector Network on Distribution of Mutual Funds

Public sector banks in India with large captive consumer ase play a very limited role in mutual fund distribution in semi-urban and rural areas. Action plan for financial inclusiveness The mutual fund industry should chalk out the following action plan to bring financial inclusiveness:-

- Increase in Mutual Fund Penetration Through Customer Awareness Program:

Customer awareness is the pre-requisite for the achievement of the mutual fund industry growth potential. There is a need for planning and executing initiatives aimed at increasing financial literacy and enhancing education across the country. AMCs with support from CII (Confederation of Indian Industry), AMFI (Association of Mutual Funds in India) and NISM (National Institute of Securities Markets) should carry out customer awareness program through a sustained collaborative effort.

- Products Innovation and Pricing Flexibility to Attract Risk Averse Customers:

It has become an emergence for the AMCs to launch innovative customer-friendly products. The fund houses should introduce simple products that have features of capital protection with returns that are higher than traditional products and limit market risk. Focus should be given on designing of products around women and children related needs given the growing dominance of women in influencing investment decisions in households across the country. Pricing innovation should focus on distributor compensation and administration.

- Increasing Public Sector Network on Mutual Funds Distribution:

Public sector network including India Post, Nationalised Banks, Regional Rural Banks and Cooperative Banks should have active participation on sale of mutual funds. Few public sector banks like, SBI, Canara Bank, and Bank of Baroda, have already participated to sale mutual funds in India. Employees of public sector network may be inducted as trainers through “Train the Trainer” approach to support customer campaigns run by NISM and AMFI.

- Increasing Mutual Fund Penetration Beyond Tier 2 Cities:

Effort must be made to sale mutual funds through public sector network beyond the 2 Tier cities creating awareness among the retail investors. India Post should be encouraged to sell mutual fund products of all SEBI registered AMCs instead of limiting the customers to five AMCs only as is currently prevalent.

- Harmonisation of Policies across Multiple Regulatory Frameworks in the Financial Services Sector

The Government of India should constitute a Steering Committee under the aegis of the Ministry of Finance comprising the Financial Services Regulators for mutual funds and capital markets, pension, insurance, banking and other verticals along with representation from CBDT. The Govt. should take steps to set up an exclusive body for functioning of Mutual Funds in India, i.e.MFRDA (Mutual Fund Regulatory and Development Authority.)

Findings of the Study:

From the above study it is found that;-

- Though financial inclusion sounds good in paper, it is still far away from the reality. The vulnerable groups of the society are still far away from the true sense of financial inclusion. The RBI should issue the guidelines to speed up the financial inclusion process by simplifying the banking services for the weaker section of the society.
- Though there is an eye catching all round growth of Indian Mutual Fund Industry, the role of Mutual Funds in promoting savings continues to be insignificant in India. The mutual fund investment is becoming as an emerging area of investment among retail investors. No doubt, it helps in mobilisation of the resources of retail investors towards the growth of economy. But there is little chance of getting financial inclusion through Mutual Fund in near future.

In this context the view expressed by C B Bhave the former SEBI Chairman is worth noting. He said, "We should first understand the term financial inclusion, as defined by RBI. It is different for banks and mutual funds. When we talk of banks, it means to include the poorest of the poor...but that can't be same for MFs”.

He also said, “Financial inclusion is a noble goal and everyone should be working towards achieving it but one should keep in mind the target customer. A person whose lifetime saving is a mere Rs 50,000 can't afford to invest in MFs. If the market crashes tomorrow, he cannot take that kind of risk. You will only give him what the NAV is at that particular time,".

- There is tremendous opportunity for growth of mutual funds as the penetration level of MFs in smaller towns (population upto 50,000) is lagging behind urban cities. The fund houses should introduce customer oriented products to attract more and more investors to this sector.

Conclusion

Mutual Funds clearly have a significant role to play in financial development. It is the high time for Asset Management Companies to tap the low-income groups especially in rural areas by devising appropriate schemes for them. The industry should ensure participation of all categories of investors in the financial markets, which is crucial for sustained development, both of the financial sector and the economy as a whole. There is an opportune time for the industry to learn and experience from the past mistakes and develop a roadmap through a collaborative effort across all stakeholders to achieve sustained economic growth through financial inclusion. All efforts at the moment are being synchronized towards attaining the objective of financial inclusion. Increasing investor participation through financial literacy, introducing innovative customer-friendly products and increasing penetration beyond Tier 1 and Tier 2 cities has indeed taken the attention of the industry.

Table 2. Progress of Unbanked Villages in Financial Inclusion Plan (excluding RRBs)

SL.No.	Particulars	March 2010	March 2011	March 2012	Variation March 2012 over March 2010
1	Village Covered >2000 Population	27,353	54,246	82,300	54,947
2	Village Covered <2000 Population	26,905	45,937	65,234	38,329
3	Village Covered Through Branches	21,475	22,662	24,701	3,226
4	Village Covered Through BCs	32,684	77,138	1,20,355	87,671
5	Village Covered Through Other Modes	99	383	2,478	2.379
6	Urban Locations covered through BCs	433	3,757	5,875	5,442
7	Total Village Covered red(1+2+3+4+5)	1,08,516	2,00,366	2,95,068	1,86,552

Source: http://www.rbi.org.in/AnnualReportPublications/23.08.2012

Table 3. Progress of Total Bank Outlets Financial Inclusion Plan (including RRBs)

SL.No.	Particulars	March 2010	March 2011	March 2012	March 2013	Variation March 2013 over March 2010
1	Banking Outlets in Villages - Branches	33,378	34,811	37,471	40,837	7,459
2	Banking Outlets in Villages - BCs	34,174	80,802	1,41,136	2,21,341	1,87,167
3	Banking Outlets in Villages - Other Modes	142	595	3,146	6,276	6,134
4	Total Banking Outlets in Villages (1+2+3)	67,694	1,16,208	1,81,753	2,68,454	2,00,760

Source: http://www.rbi.org.in/AnnualReportPublications/2012-13

Table 4. Progress of Basic Savings Bank Deposit Accounts Financial Inclusion Plan

SL.No.	Particulars	March 2010	March 2011	March 2012	March 2013	Variation March 2013 over March 2010
1	BSBDA Total (in millions)	73.45	104.76	138.50	182.06	108.61
2	BSBDA Total (Amt. in ` billions)	55.02	76.12	120.41	182.92	127.90

Table 5. Progress of No-Frill account in Financial Inclusion Plan (excluding RRBs)

SL.No.	Particulars	March 2010	March 2011	March 2012	Variation March 2012 over March 2010
1	No-Frill accounts(No. in millions)	50.3	75.4	105.5	55.2
2	No-Frill accounts(Amt. in billions)	42.6	57.0	93.3	50.7
3	No-Frill accounts with Overdraft (No. in millions)	0.1	0.5	1.5	1.4
4	No-Frill accounts with Overdraft (Amt. in billions)	0.1	0.2	0.6	0.5

Table 6. Progress of Kisan Credit Cards in Financial Inclusion Plan (excluding RRBs)

SL.No.	Particulars	March 2010	March 2011	March 2012	March 2013	Variation March 2013 over March 2010
1	Kisan Credit Cards (No. in millions)	24.31	27.11	30.24	33.79	9.48
2	Kisan Credit Cards (Amt. in billions)	1,240.07	1,600.05	2,068.39	2,622.98	1,382.91

Table 7. Progress of General Purpose Credit Cards in Financial Inclusion Plan (excluding RRBs)

SL.No.	Particulars	March 2010	March 2011	March 2012	March 2013	Variation March 2013 over March 2010
1	General Purpose Credit Cards (No. in millions)	1.39	1.70	2.11	3.63	2.24
2	General Purpose Credit Cards (Amt. in billions)	35.11	35.07	41.84	76.34	41.23

Source:http://www.rbi.org.in/AnnualReportPublications/2012-13

Table 8. Progress of ICT Based Accounts in Financial Inclusion Plan (excluding RRBs)

SL.No.	Particulars	March 2010	March 2011	March 2012	March 2013	Variation March 2013 over March 2010
1	ICT Based Account through BCs (No. in millions)	26.52	84.16	155.87	250.46	490.49
2	ICT Based Account through BCs (Amt. in billions)	6.92	58.00	97.09	233.88	388.97

Source:http://www.rbi.org.in/AnnualReportPublications/2012-13

Table 7. Pradhan Mantri Jan-Dhan Yojana (Accounts Opened As on 8.12.2014

S.No.		No of Accounts (In Lacs)			No of Rupay Debit Cards (In Lacs)	Balance In Accounts (In Lacs)	No of Accounts with Zero Balance (In Lacs)
		Rural	Urban	Total			
1.	Public Sector Banks	382	320.77	702.77	535.42	537990.01	518.88
2.	Regional Rural Banks	127.26	22.76	150.03	28.11	100671.44	114.73
3.	Private Banks	11.98	11.36	23.34	15.17	39176.51	16.23
	Total	521.24	354.89	876.14	578.70	677837.96	649.84

Disclaimer: Information is based upon the data as submitted by different banks/SLBCs

Table 8. Growth of Assets under Management

As on 31st March	AUM(Rs.Crore)	CAGR(Compounded Annual Growth Rate)
2005	1496	5.8%
2006	2319	55.01%
2007	3590	54.80%
2008	5385	50%
2009	4933	-8.40%
2010	6140	24.47%
2011	5923	-3.5%
2012	6648	12.24%
2013	8164	22.80%

(Source: AMFI)

Table 9

Name of the Country	% of AUM to GDP
USA	83
Brazil	45
Europe	41
UK	40
Japan	13
China	5
India	7
World (Average)	38

Source: ICI Fact Book 2013

Table 10. Profitability of MF Industry as a percentage of AUM

Financial Year	PBT as a % of AUM
2004	0.24
2005	0.25
2006	0.25
2007	0.17
2008	0.14

References

1: Chaudhuri Tamal Datta (2008).Emerging Issues in the Indian Mutual Fund Industry, *Portfolio Organizer*, Icfai University Press, Icfai University February, 51-56.

2: Sankaran Sundar (2012*).Indian Mutual Funds Handbook-A Guide for Industry Professionals and Intelligent Investors*, 3rd Ed. Vision Books, New Delhi.

3:26th Skoch Summit (2011). Financial Inclusion-State of the Sector Report, 2nd-3rd June.

4: Gokarn Subir (2011).Mutual Funds and Market Development in India, *CII 7th Edition of Mutual Fund Summit*, June 22.

5: KPMG (2009).Indian Mutual Fund Industry-The Future in a Dynamic Environment: Outlook for 2015, *CII Mutual Fund Summit*, June

6:Ghata Sushmita (2011).Financial Inclusion through Mutual Funds, *Indian Express-Journalism of Coverage*, February 7.

7: Roy Robin (2010).Indian Mutual Fund Industry: Focus on Financial Inclusion, *The Analysts Magazine*, Icfai University Press.Icfai University. July.

8: Rodrigues Tensing (2010). Financial inclusion in the equities market, *Daily News & Analysis (DNA)*, July 19.

9: Bhave C.B. (2010). Indian not ready yet for Financial Inclusion in Capital Markets, *The Economic Times*, June, 24.

10: Pricewaterhousecooper (2010). Indian Mutual Fund Industry -Towards 2015 Sustaining Inclusive Growth: Evolving Business Models, *CII 6th Mutual Fund Summit*, June 23.

11: Agrawal Amol (2008).The need for Financial Inclusion with an Indian perspective, *Economic Research, IDBI Gilts Ltd*, March 3.