

## **ROLE OF MUTUAL FUNDS IN INDIAN FINANCIAL SYSTEM AS A KEY RESOURCE MOBILIZER**

**Dhimen Jani<sup>1</sup> and Dr. Rajeev Jain<sup>2</sup>**

<sup>1</sup>Research Scholar, Mewar University, Rajasthan, India

Email: jani.dhimen@gmail.com

<sup>2</sup>Dean & Head, Department of Management, University of Kota, Rajasthan, India

Email: rajeevjain@uok.ac.in

### **ABSTRACT**

*This paper attempts to identify, the relationship between AUM mobilized by mutual fund companies and GDP growth of the India. To find out correlation coefficient Kendall's tau b and spearman's rho relationship was applied, the data range was selected from 1998-99 to 2009-10. Kendall's tau b correlation coefficient was found +.848, which is significant 1% confidence level. In similar way spearman's rho relationship coefficient was found +.944, indicates significant relationship between GDP of the country and AUM mobilized by mutual fund companies. Both figure suggest that, there is very strong positive relationship between AUM mobilized by mutual fund and GDP growth of the India.*

**Keywords:** AUM, GDP, Correlation

### **INTRODUCTION**

Prior to LPG process Indian economy was growing at the rate of 3.7 percent in the first year plan, 4.1 percent in the second plan, fifth five year plan it had a pace of 5 percent, in the 6<sup>th</sup>, 7<sup>th</sup> and 8<sup>th</sup> plan period it was 5.4, 5.7 and 5.8 percent respectively (Shukla 2006). The reforms for Indian financial system placed very positive impact over a time. The roots of Indian financial system are now very strong, even euro crisis and global recession were not able to destruct the economy significantly. The fundamentals of Indian economy are very strong; purchasing power of consumer has increased tremendously. The velocity of money has also increased.

While in march 2010-11 currency in circulation was INR 949659 crore, consisting cash with banks INR 35463 crore, currency with public INR 914197 crore, other deposits with RBI INR 3713 crore, bankers deposits with RBI INR 423509 crore, Demand deposits INR 717660 crore, Time deposits INR 4863979 crore, Reserve Money INR 1376881 crore, narrow money INR 1635569 crore, total amount INR 6499548 crore. (Source- RBI Data 11)

The savings and investment rate at current price level (factor cost) and some macro-economic aggregates (Base year 2004-05) for 2005-06 were GDP 14.1 per cent, NDP 14.1 per cent, GNP 14.1 per cent, NNP 14.1 per cent, Per capita Income 12.3, while in 2009-10\*[Data for 2008-09 are provisional, 2009-10 are quick estimates and 2010-11 are revised estimates (Source- Central Statistics Office- CSO)], GDP 14.1 per cent, NDP 16.1 per cent, GNP 16.1 per cent, NNP 16.1 per cent, per capita Income 14.5.

Keeping eye on the same aggregates at factor cost and at constant price in 2005-06 GDP 9.5 per cent, NDP 9.5 per cent, GNP 9.5 per cent, NNP 9.5 per cent, Per capita Income 7.8, while in 2009-10, GDP 8 per cent, NDP 7.6 per cent, GNP 7.9 per cent, NNP 7.5 per cent, per capita Income 6.5. The GDP, GNP, NNP and per capita income has reduced significantly in 2009-10 as compare to 2005-06, because of the global recession, US financial crisis and high rate of inflation.

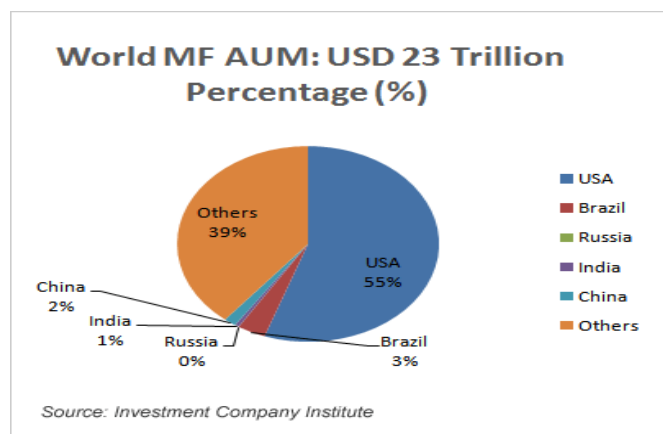
### **Mutual Fund – An Indian Perspective**

The Indian Mutual Fund industry has witnessed significant growth in the past few years driven by favorable economic and demographic factors such as rising income, rising saving rate, rising income earning-spending activity etc.

Mutual funds in India was firstly launched in July 1964 by UTI, with the objective of employment of individual savings into gigantic capital formation by investing it in capital market, besides that there was strong need for channelizing household savings for circulation and making it available for corporate for their productive use. At the same time it was felt that UTI could be an effective option to bridge the gap between individual saving and capital formation. UTI enjoyed the monopoly for almost two decades. In early nineties the following players entered into the market. They are SBI (1987), Can Bank (1987), LIC (1989), Indian Bank (1990), Bank of India (1990), PNB (1990), GIC (1991) etc.

Presently the concept of mutual fund has become very familiar to almost all retail investors. The key benefits of mutual funds is that, it can be started with nominal amount of INR 500, besides that tax benefit is also available in some schemes, smart moves by experts, advantage of equity return and at the same time investors can reap the benefit of economies of scale.

Apart from that, comparative low return of bank fixed deposits, public provident fund, National saving certificate and Kisan Vikas Patra etc. made mutual fund more attractive. In 1999-2000 total AUM was crossing 61000 crores. In resource mobilization, mutual funds outperformed the bank fixed deposits. Mutual funds on net basis increases their resources by INR 18516 crore, there was decline in the accretion to the bank deposits from INR 108615 crore in 1998-99 to INR 9175 crore in 1999-2000. The Asset Under Management in 2010 was INR 613979 crore, which is expected to reach INR 592250 in 2011 (provisional). Although the data as compare to world shows very poor picture, the following chart explain the position of India in world.



By countries, 55 % of worldwide assets were in the USA as at the end of the first quarter of 2010, India is a meagre 0.51%; 3.49 % in Brazil, 1.50% in China and scanty 0.02% in Russia.

### **Asset under Management (AUM) and Growth of the Country**

Since 2004, India has been amongst the fastest growing market for mutual fund. The growth pattern of mutual fund industry grew at 29 per cent CAGR as against the global average 4 per cent. Even macro-economic aggregates like GDP of public sector, NDP of public sector, Gross Domestic Capital Formation and Net Domestic Capital Formation (at constant price) etc. are favorable for the country. In 2004 -05 GDP of public sector was INR 1064041 crore went up to INR 1565007 crore in 2009-10 achieving almost growth of 47% and in 2010-11 it went to INR 1858659 crore achieving growth rate of 74 per cent in 2004-05. In similar way, Net Domestic Capital Formation in 2004-05 was INR 744150 crore, went up to INR 1097772 crore in 2009-10, achieving growth rate of 48 per cent. In 2010-11 it reduced up to INR 1340347 crore with the pace of 80 per cent. Besides that, GDP of public sector in 2004-05 was INR 680519 crore and is expected to reach INR 1046657 crore, achieving growth rate of almost 54 per cent.

### **LITERATURE REVIEW**

During 1992-93, taking into accounts all the eight mutual funds could harvest 13,012 crores. Due to slump in the Capital Market the funds mobilisation was affected and during 1997-98 it collected only 3305.4 crores. But due to uptrend noticed in the stock market because of certain encouraging measures initiated by the Government. The resource mobilization got plucked up and reached a gross amount of Rs 29,858.38 crores during the first eight months of the current financial year 1999-2000 as against Rs. 14,288 crores in the corresponding period of last year and Rs.22710.73 crores during the entire financial year 1998-99.

The sound financial market lead to sound economy. Guerley and Shaw (1995) suggest that, role of financial institution is to capitalize the opportunities for saving and thereby increasing investment rate in the economy.

Kauhan (1986) mentioned that, financial intuitions are estimated to symbolize the core of truthfulness and their risk-taking determination is well composed by a strong sense of fiduciary charge and that is why economic procedures have always been a part of economic development.

Delia-Elena DIACONAȘU (2011) studied the role of mutual fund in the U.S. economy, different macroeconomic indicators and the dynamics of mutual funds in U.S. there was weak correlation ship between balance of payment and global fund and it was also found that higher investment in investment in funds accounts for the purpose of retirement.

According to Gokarn (2011), Mutual Funds play an important role in the development of the financial system. First, they pool the resources of small investors together, increasing their participation in financial markets, which helps both inclusion and the efficient functioning of markets.

### **SIGNIFICANCE OF STUDY**

The backbone of any economy is its financial system. Stronger the financial system stronger the economy. The financial system consist of financial markets, financial intermediaries, financial instruments etc. mutual fund is one of the emerging financial instrument that

mobilize the savings of millions of small and retail investors by creating gigantic capital formation for the economy. Mutual fund is one of the convenient financial instrument for investment for small and retail investor and country like India small investment forms major part of capital, it would be beneficial for the country. The study will identify whether mutual fund is correlated with the growth and development of the country. It will explore the relationship between development of mutual fund and economy, hence new steps can be taken for development and growth of the mutual fund industry and thereby economy as whole.

### **LIMITATION**

There are certain limitations of study, firstly the study takes only one factor for the growth and development of the economy, which has some practical limitations, i.e. there are many factor which has impact on the growth and development of the country like interest rate, Foreign Direct Investment, Foreign Institutional investment, Infrastructural facilities, development of sound financial market, currency convertibility and govt. stability etc. which have been not taken into account. Secondly, figures of import and exports have been not considered which is necessary for the stronger balance of payment, besides all these limitations, experience and experiment both suggest that, mutual fund is necessity for the growth of the country, i.e. In India, around 1000 different mutual funds schemes available while in developed countries like U.S. have more than 12000 schemes, of course not all the mutual fund succeeds but majority form good capitalization for the growth of the Country.

### **OBJECTIVES**

The objective behind the study of relationship between financial resources mobilized by mutual fund and growth and development of the economy, is to prove the importance of the mutual fund. They are essential for the development of the country.

### **HYPOTHESIS DEVELOPMENT**

Null hypothesis H<sub>0</sub>: There is no significant relationship of AUM mobilized by mutual fund and GDP of the country.

### **Sources of Data**

The entire research is based on secondary data, which had collected from the following source. [www.sebi.gov.in](http://www.sebi.gov.in)

### **Sample Size**

The data series collected from 1998-99 to 2009-10 from the above mentioned website

### **Analytical Tool – SPSS 20**

**Statistical Tools and Techniques Applied** – Correlation coefficient by Kendall's tau<sub>b</sub> and Spearman's rho

**ANALYSIS AND INTERPRETATION**

**Table 1.** Comparative Analysis of total AUM and GDP of the country

Year	GDP at Factor cost 2004-05	Total AUM
1998-99	20,87,828	97,228
1999-00	22,54,942	68,193
2000-01	23,48,481	1,07,946
2001-02	24,74,962	90,587
2002-03	25,70,935	1,00,594
2003-04	27,75,749	1,09,299
2004-05	29,71,464	1,39,616
2005-06	32,53,073	1,49,600
2006-07	35,64,364	2,31,862
2007-08	38,96,636	3,26,292
2008-09	41,58,676	5,05,152
2009-10	45,16,071	4,17,300

Source: www.sebi.gov.in

**Table 2.** Correlation co-efficient

		GDP of India at factor cost 2004-05	Total Assets Under Management
<b>Kendall's tau_b</b>	GDP of India at factor cost 2004-05	Correlation Coefficient	1.000
		Sig. (2-tailed)	.000
		N	12
	Total Assets Under Management	Correlation Coefficient	.848**
		Sig. (2-tailed)	.000
		N	12
<b>Spearman's rho</b>	GDP of India at factor cost 2004-05	Correlation Coefficient	1.000
		Sig. (2-tailed)	.000
		N	12
	Total Assets Under Management	Correlation Coefficient	.944**
		Sig. (2-tailed)	.000
		N	12

**Note:** \*\*. Correlation is significant at the 0.01 level (2-tailed)

The stronger the correlation, the stronger relationship between variables. In the present case, it can be observed that there is strong relationship between AUM mobilized by mutual fund companies and GDP of the economy. Kendall’s tau b correlation coefficient is +.848, which is significant 1% confidence level. In similar way spearman’s rho correlatioship coefficient is +.944, indicates significant relationship between GDP of the country and AUM mobilized by mutual fund companies. Besides that, both have (+) positive relationship, which indicates that, both variable shall behave in similar direction, with very nearer to each other, 84.8% in case of Kendall and 94.4% in case of spearman.

Null hypothesis is rejected, there is a significant relationship between AUM channelized by mutual funds companies and GDP of the nation

### **CONCLUSION**

The economy like India will make its path for next few years very successfully. The fundamentals of the Indian economy are relatively strong. The purchasing power of consumer has also increased unbelievably. Mutual funds are going to be key resource Mobilizer for Indian financial system over the next few years. The only thing is the India need just proper structure whether it may be the case of black money may be the case of financial reforms or strong regulatory frame work for the protection of small and retail investors. In short, Indian mutual fund industry is going to observe good growth rate in upcoming future. It will achieve the sustainable and profitable growth provided the said improvements measures are applied properly and it would play a key role in financial resource mobilization.

### **REFERENCES**

1. Census of India reports 2009-10
2. Chandra, Prasanna, “ The investment Game”. Tata Mc.Grow-hill publication, New Delhi
3. Dave, S.A., “Mutual fund growth and development” The journal of Indian institute of Bankers, Jan-march, 1992.
4. Delia-Elena DIACONAȘU (2011),”The Role of Mutual Fund in U.S. economy”, Alexandru Ioan Cuza University Faculty of Economics and Business Administration Iași, Romania
5. Dr. Subir Gokarn (2011),”Mutual Fund and Market Development in India”,CII 7<sup>th</sup> editions of Mutual Fund Summit 2011, Deputy Governor, RBI, Mumbai 22june 2011
6. Guercley and Shaw, 'Financial aspects of Development', -IC Renew, v0145, 1955, pp 515-539.
7. Gupta Shasi k. and Sharma R.K., Financial Management, Kalyani Publishers,
8. Hsieh, C. and P.Klenow, 2007, “ Misallocation and Manufacturing TFF in China and India”, NBER Working Paper No. 13290 (Cambridge, Massachusetts: National Bureau of Economic research)
9. IMF, working paper Asia and Pacific Department, “Financial Development and Growth in India: A Growing Tiger in cage” by Hiroko Oura, March 2008
10. Misra and Puri (2008) “ Economic Environment ” Himalaya Publication, New Delhi
11. Misra and Puri (2010) “Indian Economy” Himalaya Publication, New Delhi.
12. Oura, H., 2007, “Wild or Tamed? India’s Potential growth,” IMF working Paper 07/224 (Washington: IMF)
13. P.hanumantha Rao,Vidhyasagar university journal of commerce, volume 12<sup>th</sup> march 2007
14. Rohit Shukla 2006,”36<sup>th</sup> Conference of Gujarat Economic Association 28-29<sup>th</sup> January 2006

15. Shukla, Sharad, “ Mutual Funds: past performance is no indicator of the future” Economic times, June 6, 1992
16. The Indian mutual fund industry – the future in dynamic environment outlook for 2015, june 2009 by KPMG and CII
17. The Kanfman Fund Inc. “No Load Small Company Growth Fund” Annual Reporst, 1986.
18. The Reserve Bank of India – 2011 reports [www. rbi.org](http://www.rbi.org)
19. Van Horne, J C (1995), Financial Management & policy, prentice hall International
20. World Bank, 2006, Developing Indian Corporate Bond Market, (Washington)
21. [www.amfiindia.com](http://www.amfiindia.com)
22. [www.moneycontrol.com](http://www.moneycontrol.com)
23. [www.mutualfundindia.com](http://www.mutualfundindia.com)
24. [www.sebi.gov.in](http://www.sebi.gov.in)
25. Yasaswy, N.j. “personal investment and Tax planning year bool” Vision Books, New Delhi.