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EVALUATION OF MUTUAL FUND INDUSTRY ON INDIAN STOCK MARKET

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The first introduction of a mutual fund in India occurred in 1963, when the Government of India launched Unit Trust of India (UTI).[1] Until 1987, UTI enjoyed a monopoly in the Indian mutual fund market. Then a host of other government-controlled Indian financial companies came up with their own funds. These included State Bank of India, Canara Bank, and Punjab National Bank. This market was made open to private players in 1993, as a result of the historic constitutional amendments brought forward by the then Congress-led government under the existing regime of Liberalization, Privatization and Globalization (LPG). The first private sector fund to operate in India was Kothari Pioneer, which later merged with Franklin Templeton. In 1996, SEBI, the regulator of mutual funds in India, formulated the Mutual Fund Regulation which is a comprehensive regulatory framework.Income from MFs could take two forms—dividends and capital gains.

Keywords: Financial markets, Information about the mutual funds industry

INTRODUCTION

A mutual fund is just the connecting bridge or a financial intermediary that allows a group of investors to pool their money together with a predetermined investment objective. The mutual fund will have a fund manager who is responsible for investing the gathered money into specific securities (stocks or bonds). When you invest in a mutual fund, you are buying units or portions of the mutual fund and thus on investing becomes a shareholder or unit holder of the fund. Mutual funds are considered as one of the best available investments as compare to others they are very cost efficient and also easy to invest in, thus by pooling money together in a mutual fund, investors can purchase stocks or bonds with much lower trading costs than if they tried to do it on their own. But the biggest advantage to mutual funds is diversification, by minimizing risk & maximizing returns.The first introduction of a

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mutual fund in India occurred in 1963, when the Government of India launched Unit Trust of India (UTI).[1] Until 1987, UTI enjoyed a monopoly in the Indian mutual fund market. Then a host of other government-controlled Indian financial companies came up with their own funds. These included State Bank of India, Canara Bank, and Punjab National Bank. This market was made open to private players in 1993, as a result of the historic constitutional amendments brought forward by the then Congress-led government under the existing regime of Liberalization, Privatization and Globalization (LPG). The first private sector fund to operate in India was Kothari Pioneer, which later merged with Franklin Templeton. In 1996, SEBI, the regulator of mutual funds in India, formulated the Mutual Fund Regulation which is a comprehensive regulatory framework.[2]Income from MFs could take two forms—dividends and capital gains.Despite being available in the market less than 10% of Indian households have invested in mutual funds. A recent report on Mutual Fund Investments in India published by research and analytics firm, Boston Analytics, suggests investors are holding back from putting their money into mutual funds due to their perceived high risk and a lack of information on how mutual funds work. There are 46 Mutual Funds as of June 2013. The primary reason for not investing appears to be correlated with city size. Among respondents with a high savings rate, close to 40% of those who live in metros and Tier I cities considered such investments to be very risky, whereas 33% of those in Tier II cities said they did not know how or where to invest in such assets.

OBJECTIVES OF THE PROJECT

1. To show the wide range of investment options available in MF's by explaining various schemes offered by different AMC's.
2. To help an investor to make a right choice of investment, while considering the inherent risk factors.
3. To understand the recent trends in the MF world.
4. To understand the risk and return of the various schemes.
5. To find out the various problems faced by Indian mutual funds and possible solutions.

Industry Profile:

A **bank** is a financial institution that accepts deposits and channels those deposits into lending activities. Banks primarily provide financial services to customers while enriching investors. Government restrictions on financial activities by banks vary over time and location. Banks are important players in financial markets and offer services such as investment funds and loans. In some countries such as Germany, banks have historically owned major stakes in industrial corporations while in other countries such as the United States banks are prohibited from owning non-financial companies. In Japan, banks are usually the nexus of a cross-share holding entity known as the keiretsu. In France, banc assurance is prevalent, as most banks offer insurance services (and now real estate services) to their clients.

The level of governmentregulation of the banking industry varies widely, with countries such as Iceland, having relatively light regulation of the banking sector, and countries such as China having a wide variety of regulations but no systematic process that can be followed typical of a communist system.The oldest bank still in existence is Monte deiPaschi di Siena, headquartered in Siena, Italy, which has been operating continuously since 1472.

HISTORY

The name *bank* derives from the Italian word *banco* "desk/bench", used during the Renaissance by Jewish Florentine bankers, who used to make their transactions above a desk covered by a green tablecloth. However, there are traces of banking activity even in ancient times, which indicates that the word 'bank' might not necessarily come from the word 'banco'.

In fact, the word traces its origins back to the Ancient Roman Empire, where moneylenders would set up their stalls in the middle of enclosed courtyards called *macella* on a long bench called a *bancu*, from which the words *banco* and *bank* are derived. As a moneychanger, the merchant at the *bancu* did not so much invest money as merely convert the foreign currency into the only legal tender in Rome—that of the Imperial Mint.

The earliest evidence of money-changing activity is depicted on a silver drachm coin from ancient Hellenic colony Trapezus on the Black Sea, modern Trabzon, c. 350–325 BC, presented in the British Museum in London. The coin shows a banker's table (*trapeza*) laden with coins, a pun on the name of the city.In fact, even today in Modern Greek the word Trapeza (*ÔñÜðåæá*) means both a table and a bank.

TRADITIONAL BANKING ACTIVITIES

Banks act as payment agents by conducting checking or current accounts for customers, paying cheques drawn by customers on the bank, and collecting cheques deposited to customers' current accounts. Banks also enable customer payments via other payment methods such as telegraphic transfer, EFTPOS, and ATM.Banks borrow money by accepting funds deposited on current accounts, by accepting term deposits, and by issuing debt securities such as banknotes and bonds. Banks lend money by making advances to customers on current accounts, by making installment loans, and by investing in marketable debt securities and other forms of money lending.Banks provide almost all payment services, and a bank account is considered indispensable by most businesses, individuals and governments. Non-banks that provide payment services such as remittance companies are not normally considered an adequate substitute for having a bank account.Banks borrow most funds from households and non-financial businesses, and lend most funds to households and non-financial businesses, but non-bank lenders provide a significant and in many cases adequate substitute for bank loans, and money market funds, cash management trusts and other non-bank financial institutions in many cases provide an adequate substitute to banks for lending savings to.

ENTRY REGULATION

Currently in most jurisdictions commercial banks are regulated by government entities and require a special bank licence to operate.

Usually the definition of the business of banking for the purposes of regulation is extended to include acceptance of deposits, even if they are not repayable to the customer's order—although money lending, by itself, is generally not included in the definition.

Unlike most other regulated industries, the regulator is typically also a participant in the market, i.e. a government-owned (central) bank.

Central banks also typically have a monopoly on the business of issuing banknotes. However, in some countries this is not the case. In the UK, for example, the Financial Services Authoritylicences banks, and some commercial banks (such as the Bank of Scotland) issue their own banknotes in addition to those issued by the Bank of England, the UK government's central bank.

DEFINITION

The definition of a bank varies from country to country. Under English common law, a banker is defined as a person who carries on the business of banking, which is specified as:

- conducting current accounts for his customers
- paying cheques drawn on him, and
- collecting cheques for his customers.

In most English common law jurisdictions there is a Bills of Exchange Act that codifies the law in relation to negotiable instruments, including cheques, and this Act contains a statutory definition of the term *banker*: *banker* includes a body of persons, whether incorporated or not, who carry on the business of banking' (Section 2, Interpretation). Although this definition seems circular, it is actually functional, because it ensures that the legal basis for bank transactions such as cheques do not depend on how the bank is organised or regulated.

The business of banking is in many English common law countries not defined by statute but by common law, the definition above. In other English common law jurisdictions there are statutory definitions of the *business of banking* or *banking business*. When looking at these definitions it is important to keep in mind that they are defining the business of banking for the purposes of the legislation, and not necessarily in general. In particular, most of the definitions are from legislation that has the purposes of entry regulating and supervising banks rather than regulating the actual business of banking. However, in many cases the statutory definition closely mirrors the common law one. Examples of statutory definitions:

- "banking business" means the business of receiving money on current or deposit account, paying and collecting cheques drawn by or paid in by customers, the making of advances to customers, and includes such other business as the Authority may prescribe for the purposes of this Act; (Banking Act (Singapore), Section 2, Interpretation).
- "banking business" means the business of either or both of the following:

1. receiving from the general public money on current, deposit, savings or other similar account repayable on demand or within less than [3 months] ... or with a period of call or notice of less than that period;
2. paying or collecting cheques drawn by or paid in by customers[6]

Since the advent of EFTPOS (Electronic Funds Transfer at Point Of Sale), direct credit, direct debit and internet banking, the cheque has lost its primacy in most banking systems as a payment instrument. This has led legal theorists to suggest that the cheque based definition should be broadened to include financial institutions that conduct current accounts for customers and enable customers to pay and be paid by third parties, even if they do not pay and collect cheques.

ACCOUNTING FOR BANK ACCOUNTS

Bank statements are accounting records produced by banks under the various accounting standards of the world. Under GAAP and IFRS there are two kinds of accounts: debit and credit. Credit accounts are Revenue, Equity and Liabilities. Debit Accounts are Assets and Expenses. This means you credit a *credit account* to increase its balance, and you debit a *debit account* to decrease its balance. This also means you debit your savings account every time you deposit money into it (and the account is normally in deficit), while you credit your credit card account every time you spend money from it (and the account is normally in credit).

However, if you read your bank statement, it will say the opposite—that you credit your account when you deposit money, and you debit it when you withdraw funds. If you have cash in your account, you have a positive (or credit) balance; if you are overdrawn, you have a negative (or deficit) balance.The reason for this is that the bank, and not you, has produced the bank statement. Your savings might be *your* assets, but *the bank's* liability, so they are credit accounts (which should have a positive balance). Conversely, your loans are *your* liabilities but *the bank's* assets, so they are debit accounts (which should also have a positive balance).

Where bank transactions, balances, credits and debits are discussed below, they are done so from the viewpoint of the account holder—which is traditionally what most people are used to seeing.

ECONOMIC FUNCTIONS

1. issue of money, in the form of banknotes and current accounts subject to cheque or payment at the customer's order. These claims on banks can act as money because they are negotiable and/or repayable on demand, and hence valued at par. They are effectively transferable by mere delivery, in the case of banknotes, or by drawing a cheque that the payee may bank or cash.
2. Netting and settlement of payments – banks act as both collection and paying agents for customers, participating in interbank clearing and settlement systems to collect, present, be presented with, and pay payment instruments. This enables banks to economise on reserves held for settlement of payments, since inward and outward payments offset each other. It also enables the offsetting of payment flows between geographical areas, reducing the cost of settlement between them.
3. credit intermediation – banks borrow and lend back-to-back on their own account as middle men.
4. credit quality improvement – banks lend money to ordinary commercial and personal borrowers (ordinary credit quality), but are high quality borrowers. The improvement comes from diversification of the bank's assets and capital which provides a buffer to absorb losses without defaulting on its obligations. However, banknotes and deposits are generally unsecured; if the bank gets into difficulty and pledges assets as security, to raise the funding it needs to continue to operate, this puts the note holders and depositors in an economically subordinated position.
5. maturity transformation – banks borrow more on demand debt and short term debt, but

provide more long term loans. In other words, they borrow short and lend long. With a stronger credit quality than most other borrowers, banks can do this by aggregating issues (e.g. accepting deposits and issuing banknotes) and redemptions (e.g. withdrawals and redemptions of banknotes), maintaining reserves of cash, investing in marketable securities that can be readily converted to cash if needed, and raising replacement funding as needed from various sources (e.g. wholesale cash markets and securities markets).

LAW OF BANKING

Banking law is based on a contractual analysis of the relationship between the *bank* (defined above) and the *customer*—defined as any entity for which the bank agrees to conduct an account.

The law implies rights and obligations into this relationship as follows:

1. The bank account balance is the financial position between the bank and the customer: when the account is in credit, the bank owes the balance to the customer; when the account is overdrawn, the customer owes the balance to the bank.
2. The bank agrees to pay the customer's cheques up to the amount standing to the credit of the customer's account, plus any agreed overdraft limit.
3. The bank may not pay from the customer's account without a mandate from the customer, e.g. a cheque drawn by the customer.
4. The bank agrees to promptly collect the cheques deposited to the customer's account as the customer's agent, and to credit the proceeds to the customer's account.
5. The bank has a right to combine the customer's accounts, since each account is just an aspect of the same credit relationship.
6. The bank has a lien on cheques deposited to the customer's account, to the extent that the customer is indebted to the bank.
7. The bank must not disclose details of transactions through the customer's account—unless the customer consents, there is a public duty to disclose, the bank's interests require it, or the law demands it.
8. The bank must not close a customer's account without reasonable notice, since cheques are outstanding in the ordinary course of business for several days.

These implied contractual terms may be modified by express agreement between the customer and the bank. The statutes and regulations in force within a particular jurisdiction may also modify the above terms and/or create new rights, obligations or limitations relevant to the bank-customer relationship.

Some types of financial institution, such as building societies and credit unions, may be partly or wholly exempt from bank licence requirements, and therefore regulated under separate rules.

The requirements for the issue of a bank licence vary between jurisdictions but typically include:

1. Minimum capital
2. Minimum capital ratio
3. 'Fit and Proper' requirements for the bank's controllers, owners, directors, and/or senior officers
4. Approval of the bank's business plan as being sufficiently prudent and plausible.

TYPES OF BANKS

Banks' activities can be divided into retail banking, dealing directly with individuals and small businesses; business banking, providing services to mid-market business; corporate banking, directed at large business entities; private banking, providing wealth management services to high net worth individuals and families; and investment banking, relating to activities on the financial markets. Most banks are profit-making, private enterprises. However, some are owned by government, or are non-profit organizations.

Central banks are normally government-owned and charged with quasi-regulatory responsibilities, such as supervising commercial banks, or controlling the cash interest rate. They generally provide liquidity to the banking system and act as the lender of last resort in event of a crisis.

TYPES OF RETAIL BANKS

- Commercial bank: the term used for a normal bank to distinguish it from an investment bank. After the Great Depression, the U.S. Congress required that banks only engage in banking activities, whereas investment banks were limited to capital market activities. Since the two no longer have to be under separate ownership, some use the term "commercial bank" to refer to a bank or a division of a bank that mostly deals with deposits and loans from corporations or large businesses.
- Community Banks: locally operated financial institutions that empower employees to make local decisions to serve their customers and the partners.
- Community development banks: regulated banks that provide financial services and credit to under-served markets or populations.
- Postal savings banks: savings banks associated with national postal systems.
- Private banks: banks that manage the assets of high net worth individuals.
- Offshore banks: banks located in jurisdictions with low taxation and regulation. Many offshore banks are essentially private banks.
- Savings bank: in Europe, savings banks take their roots in the 19th or sometimes even 18th century. Their original objective was to provide easily accessible savings products to all strata of the population. In some countries, savings banks were created on public initiative; in others, socially committed individuals created foundations to put in place the necessary infrastructure. Nowadays, European savings banks have kept their focus on retail banking: payments, savings products, credits and insurances for individuals or small and medium-sized enterprises. Apart from this retail focus, they also differ from commercial banks by their broadly decentralised distribution network, providing local and regional outreach—and by their socially responsible approach to business and society.
- Building societies and Landesbanks: institutions that conduct retail banking.
- Ethical banks: banks that prioritize the transparency of all operations and make only what they consider to be socially-responsible investments.
- Islamic banks: Banks that transact according to Islamic principles.

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