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THE MUTUAL FUND INDUSTRY NEEDS TO TAP THE RURAL MARKET TO GROW

M. Gangu Naidu[*], *P. Raja Babu*[**] *and V. Isreal Raju*[***]

Abstract: *Mutual funds have now become one of the primary areas for the nation's financial growth. However, the true potential of the sector is yet to be unleashed as the challenges which the industry is facing is hindering its growth. The role of mutual funds to promote savings continues to be insignificant with size of mutual funds industry being less than 10 per cent of the Indian GDP, One major reason is that MF penetration in rural areas is small and there is a perception that they are only meant for middle and high income groups. For the MF sector to grow rapidly, we have to devise appropriate schemes to attract rural investors and find ways for the financial inclusion of low income households.80 per cent of the business for the MF industry is generated in the metros. Thus, the rural market remains mostly untapped, which allows ample scope for growth. The world's population can be divided into three basic segments based on the economic pyramid. Majority of them would lie at the bottom of the pyramid with annual income less than $1000. This economic inequality must be overcome to ensure the welfare and happiness of people all around. The need of the hour is to develop innovative products or services for these people. The Mutual Fund Advantage a mutual fund for the rural population is one such solution. The fund would require minimal investment on the part of the people in the rural areas and will be designed in such a manner that it helps them increase their financial position with respect to the other strata of the society, This paper is analyzed that in the changing business environment, appropriate schemes need to be devised to attract rural investors for the growth of the MF industry.*

Keywords: *Business environment, Mutual funds, Rural market, Rural investors.*

RESEARCH METHODOLOGY

The data can be collected from Secondary Sources. The data was collected from Past Records, Books, Journals, Magazines, Internet and all other types of published data.

OBJECTIVES OF STUDY

The specific objectives of the study are as follows

* Research Scholar, K L U Business School, Department of Management Studies, K L University, Green field, Guntur.

** Associate Professor, K L U Business School, Department of Management Studies, K L University, Green field, Guntur.

*** Professor, K.C. Reddy P.G College, Guntur.

- To analyze the Growth in average assets under management.
- To evaluate the performance of Net sales vs Net redemptions.
- To analyze the Category wise growth in assets under management.
- To analyze the Assets under management: Geographical distribution.
- To study on how to increase the rural footprint in mutual fund industry.

INTRODUCATION

The world's population can be divided into three basic segments based on the economic pyramid. Majority of them would lie at the bottom of the pyramid with annual income less than $1000. This economic inequality must be overcome to ensure the welfare and happiness of people all around. The need of the hour is to develop innovative products or services for these people. The Mutual Fund Advantage A mutual fund for the rural population is one such solution. The fund would require minimal investment on the part of the people in the rural areas and will be designed in such a manner that it helps them increase their financial position with respect to the other strata of the society. The fund will be designed in the simplest possible manner so that even a layman or an illiterate can understand the way it will function and will have no complex terms and conditions. The fund will not only boost the income of the rural households but will also increase their spending capacity thereby leading to the overall welfare and development of the regions in which they reside. If we consider the case of India, even the irregularity of monsoon can play a role in the overall functioning of the fund. By securing or insuring the rural people against such natural phenomenon, the fund can extend its advantages to higher levels. But for all this to happen, private partnership in this initiative is also a must. Large corporate houses must come forward and join hands with the government in building a financial instrument of this kind so that the people at the bottom of the pyramid can have something to cheer about and lead a better life altogether. They should take up the responsibility of first creating awareness about such a thing by educating the masses about it and then taking up the cause of these people by developing a simple instrument of this kind. By developing this mutual fund and implementing it, the rural population will definitely be moved to a new level in the economic pyramid. Bringing about a change in rural investment pattern The next wave of growth in rural areas will come from the rural markets. Presently the underdeveloped world is facing a crisis in the infrastructure sector. Once the growth story embraces this sector, the biggest gainer will be the villages. Government policies and employment generation programs will also improve the standard of living of rural masses by enhancing their per capita income. Now a question which lingers on everyone's mind is: How can ordinary, presently low-income earners, from rural background become rich? The answer to that question is as simple as it is routine: Start by saving and investing something regularly, even modest amounts, in anticipation of big returns in the future. If a villager is looking for big returns, it cannot come from the traditional sources like bonds or insurance. ATT00033.jpgHaving said that, we must appreciate that although the rural economy is looking to give the urban economy a run for its money, there isn't enough exclusively "rural" financial instruments to channel this money to productive purposes. The most feasible tool seems to be "Mutual Fund" specially designed to address the unique needs of the rural world. The concept of Mutual Funds for the poor provides significant institutional mechanisms to move the poor out of the village economy and into the more dynamic corporate sector, to a stage where a significant share of corporate wealth.

The next point of concern lies in redistribution of the returns as they understand simple things like the value of their money doubling in 5 years. This is possible considering a modest return of 14-15 % compounded annually over a horizon of 5 years. The money can be tripled in less than 9 years at the same interest rate. They can understand this concept better than the complicated NAV for MF. Generating this kind of returns will not be a daunting task for the expert fund managers who are at presently generating much higher return than that. Role of IT and Future For this MF, information technology will play the most vital part. Instead of making it too complicated by involving paper work, chip embedded cards can be issued to all the investors. The rural population is familiar with such cards like Kisan credit card, etc. These cards will store all the information regarding the investor and all the addition to the fund can be easily made without any paper work. The investor should be allowed to check the value of his/her investment. Different schemes can be made based on the requirement of the investor. The minimum time period for exit should be 3 to 5 years for any scheme. The people who start investing for the marriage of the son/ daughter or retirement planning, etc can remain invested for a longer period of time. There should not be any entry load for the fund but exit load of around 3-5% should be imposed. We can make this instrument a unique one where the investor can see his money grow and be encouraged to invest more money. The surplus money is generally wasted because it is difficult for them to find rational avenues for spending this money or to invest them in a cogent manner. The investment opportunity should be made as trouble-free and effortless as possible. People in rural areas should be educated about such instruments with the help of Gram Panchayats and other influential people in rural areas. There are many complexities involved in the model. Keeping in mind the basic framework suggested above, we can work upon the idea of such a MF by presenting the idea among the people who have crystal clear knowledge about the conditions prevailing in the rural market and those who are competent enough to chalk out the intricacies of the MF. We are sure this mutual fund has the potential to see the light of day and also show the rural Indians some light at the end of the long tunnel.

The financial services landscape is transforming, with a plethora of changes taking place on the regulatory front. Against this backdrop, asset management companies (AMCs) realize that they need to re-structure their businesses in order to meet the evolving needs of their clients and provide them with complete investment solutions. Although emerging markets such as India provide a wide range of opportunities, it is important to tap into these avenues to fuel the growth of the mutual fund industry.

The year gone by amidst volatility and uncertainty in the markets, average assets under management (AUM) posted a growth of 23% for the year ended March 2013. This was considerably higher than the 12% growth reported in March 2012. The industry has grown at a compound annual growth rate (CAGR) of 18% from 2009 -2013 (see Figure 1)

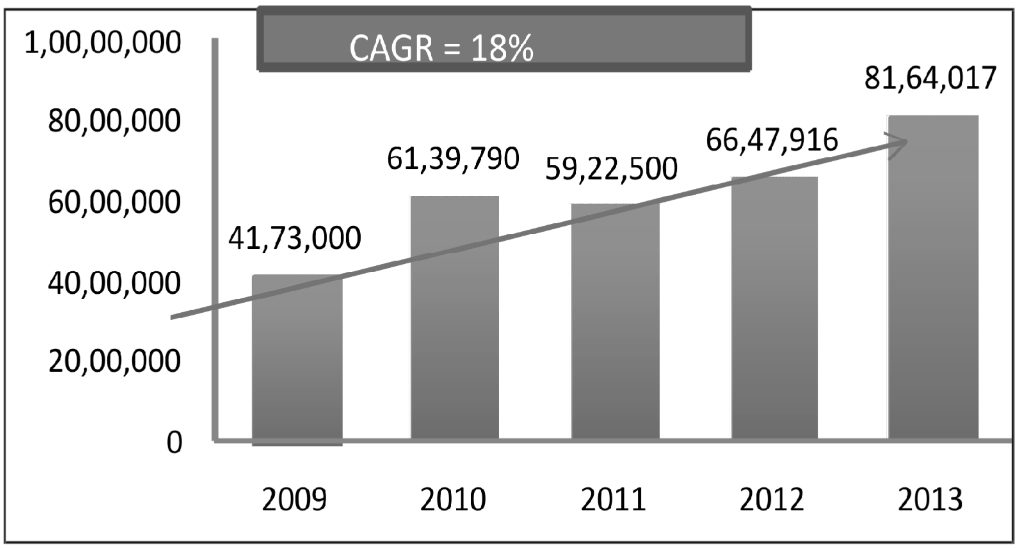


Figure 1: Growth in average assets under management (in mn INR)

Source: AMFI

However, the trend from 2010 depicts that net sales for the mutual fund industry has dipped, picking up slightly in 2013, to grow by 7% (see Figure 2).

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 3), 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.

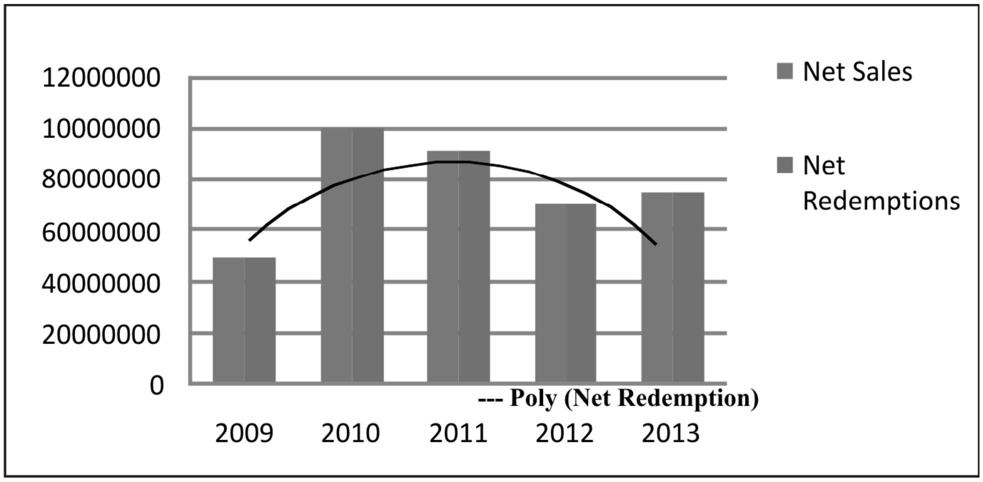


Figure 2: Net sales vs Net redemptions (2009-2013)

Source: AMFI; all data (in mn INR)

Assets under management in the liquid and money market and gold exchange traded funds (ETFs) grew by 16% and 18% respectively.

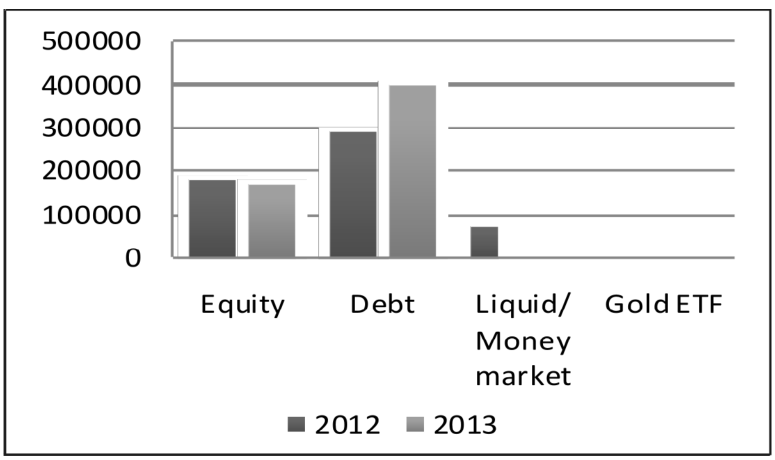


Figure 3: Category wise growth in assets under management

Source: AMFI

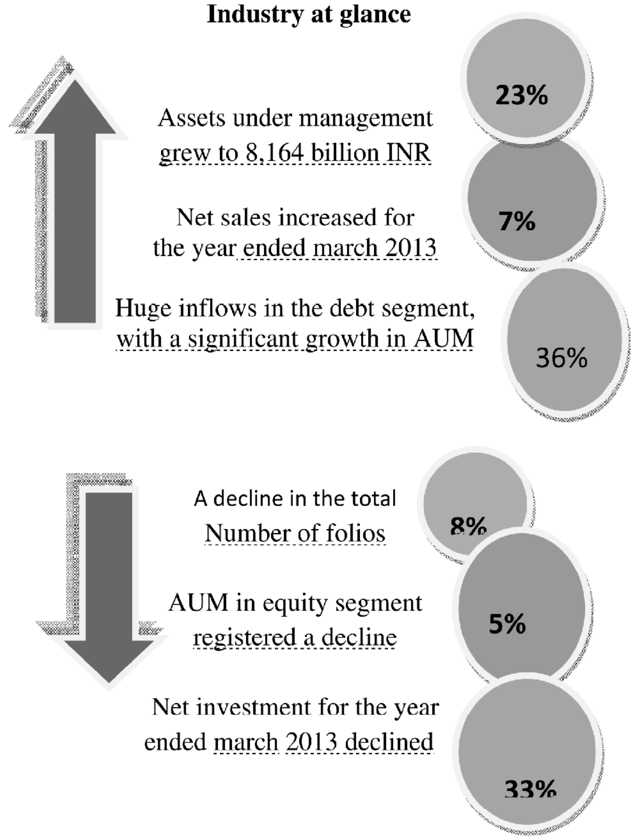
In a scenario of declining interest rates, for March 2013 the distribution of assets under management have understandably been heavily skewed towards debt at 72% of total assets under management, A fall in interest rates is indicative of higher returns for long-term debt and gilt funds. Furthermore, it has been observed that in the case of investments held for over a period of 24 months, assets under management held by retail investors in the non-equity segment was 36%, whereas for the short term, it was only 11%, suggesting the fact that in the current environment, investors are preferring debt funds for an even longer time span exceeding 24 months.

Retail Investors	*One to three months*	*Six to twelve months*	*Over twenty four months*
Equity (% to category)	4.02	7.52	63.04
Non-equity (% to category)	11.18	15.96	36.25

Source: AMFI, March 2013

Even though the industry has witnessed growth during the last year, the rise in assets under management has been coupled with erosion of the investor base, evident from the loss of 3.6 million folios as at March 2013. The equity segment saw a decline of 4.4 million folios, although the debt segment showed an addition of 0.8 million folios. This again indicates that investors are inclined towards relatively safer investments, not wanting to undertake risk in these volatile and uncertain markets. A rise has also been reported in the AMFI registration number

Industry at glance



(ARN) registrations, as a consequence of reduction in ARN fees. Since the SEBI permitted retired bank officials, school teachers, postal agents, etc to sell mutual fund schemes, AMCs have been geared up to derive maximum benefit from this opportunity to create a far-reaching distribution network, especially in B-15 cities and towns. An additional reason for AMCs to draw on this opportunity is being able to charge a higher total expense ratio if they achieve their investment targets in these cities.

THE UNTAPPED MARKET IN INDIA

The Indian population is largely under-banked with a very low level of financial inclusion leaving room for further penetration. The extent of under-penetration in the market is a sore point with the banking and financial services industry, with a large amount of savings being channelised into gold and real estate rather than the capital market. The GDP growth has slowed down, sluggish at 5% in 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 Comparing India to other countries, we realize how financial inclusion is yet to be achieved (see Figure 4). While the UK and the US have 25.5 and 35.7 branches per 0.1 million adults and developing countries such as Brazil have 13.8 branches per 0.1 million adults, India is at a staggeringly low figure of 10.9 branches per 0.1 million adults.

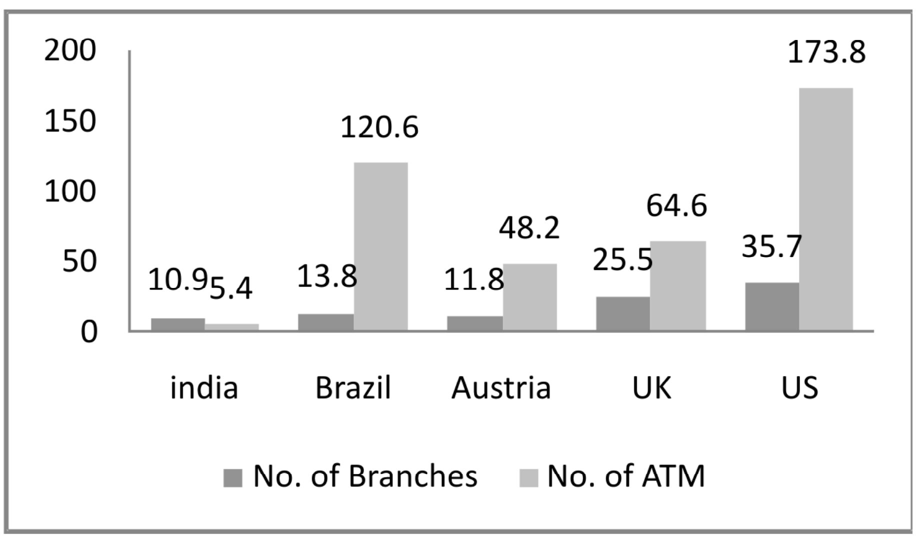


Figure 4: Financial Inclusion Data as Compared to other Economies

Source: World Bank, Financial Access Survey; 2010 data

Note: No. of branches and ATMs per 0.1 million adults

For savings to be streamlined into the capital market, investors need to first and foremost be made aware of avenues and opportunities.

The mutual fund industry is yet to spread its reach beyond Tier I cities. The top five cities contribute to 74% of the pie, with the remaining 26% distributed among other cities (see Figure 5). Statistics show that in March 2013, penetration in the top five cities increased to 74% as compared to 71 in March 2012, whereas for cities beyond the top five, penetration has decreased. One of the prime areas the industry is focusing on is developing the penetration ratio and increasing its presence in other cities.

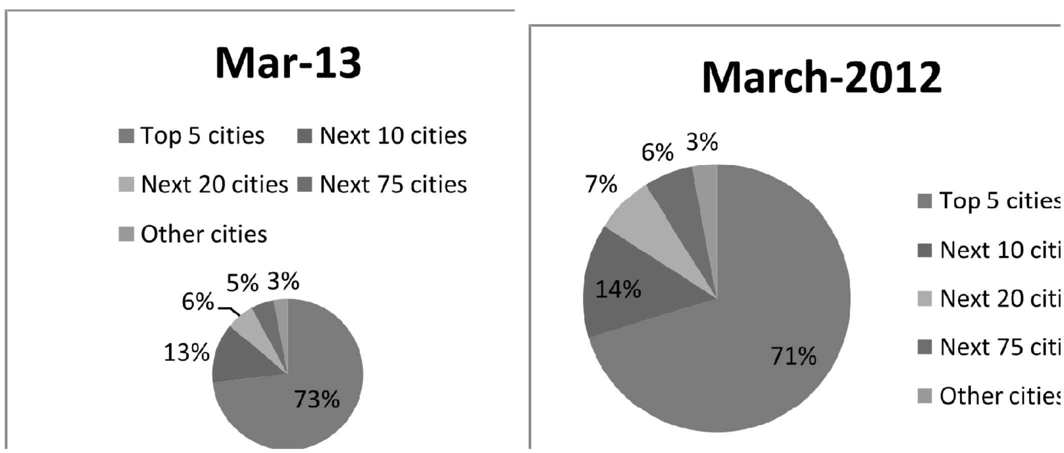


Figure 5: Assets under management: Geographical distribution

Source: AMFI

Another interesting fact worth noting is how skewed the business from the industry is, with the top ten fund houses contributing 77% of the total assets under management and the bottom ten a mere 1%.

Challenges of an under-penetrated Market

The under-penetrated market in India, although showcasing huge opportunities for market players to sell their products, places multiple roadblocks to tap into these opportunities up to their optimum potential Some basic challenges arise due to very low levels of awareness and financial literacy. The situation in these cases is such that even if the ability to invest exists, these savings are prevented from being directed into mutual fund products.

This is because of the slow capital market growth, lack of awareness of mutual funds being a low-cost investment vehicle and the returns they can generate. In

this case, there is also the interplay of cultural and behavioral change which prevents savings from being streamlined into investment products, diverted from gold or property. Indians still feel that gold and property is a less risky alternative as compared to investment in the capital markets. Also, investors are not aware of low risk products that they can invest in. A culture change is required in this case, if people are to be convinced to invest in the capital markets.

HOW TO INCREASE THE RURAL FOOTPRINT IN MUTUAL FUND INDUSTRY

The mutual fund industry can assess the strategies enumerated below and adapt best practices to penetrate the rural markets better and increase reach.

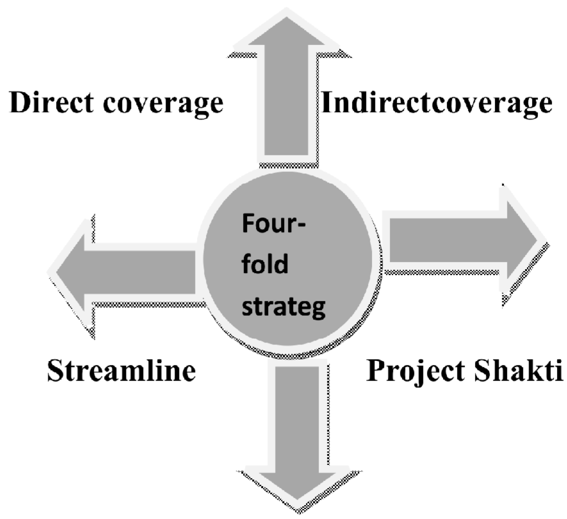
- Microfinance institutions (MFIs)
- Tap self-help groups and cooperatives
- Innovative delivery mechanisms

Alternate delivery systems that involve engaging local social agencies, building strategic partnerships with retailers, using the business facilitator and correspondent or franchisee models promoted by the RBI and establishing branchless operations with relevant infrastructure can be modified to suit industry requirements.

FMCG industry

The FMCG industry is probably one of the first industries that was successful in breaking the physical barriers of reach and penetrating the rural areas with their products. Leading FMCG companies have undertaken projects such as 'Shakti' and 'e-choupal' to stay ahead of their competitors by creating a distinct presence in the rural areas.

Four-fold strategy of a leading FMCG Company

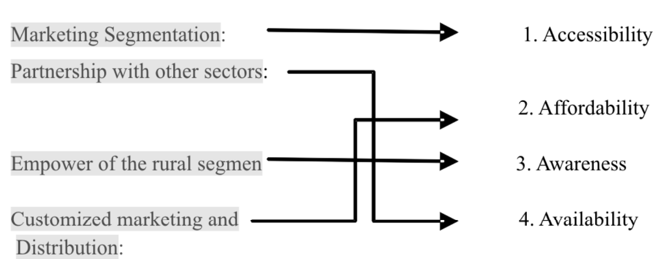


In 2010, the company rolled out the Shaktimaan initiative through Project Shakti. In this case, the men in the Shakti Amma families distribute products to the neighbouring Shakti villages. The shaktimaan is provided with bicycles to travel to villages. Through Project Shakti and Shaktimaan, the company covers 100,000 villages spanning 15 states in India and over 3 million households every month.

The Telecom Industry

Bharati Sanchar Nigam Ltd (BSNL) in India had the first mover advantage of reaching out to the rural belt with telecom connectivity. Now however other private players are present in these markets. Strategy followed by telecom operators

Strategy followed by Telecom Operators



Telecom operators have typically followed the strategy of creating awareness with their multiple promotional campaigns providing information to customers, mostly through TV and radio. Also, awareness programmes are conducted in regional languages to establish a better connection. It is of prime importance that rural customers are convinced about the product sold to them, and they are in a position to purchase them. It is interesting to note that the rural segment is more adept at purchasing products in small quantities at a higher frequency. Hence BSNL's strategy to launch 10 INR, 20 INR, 30 INR (low-value recharge) coupons goes a long way in meeting customer requirements. The toughest challenge is to deal with distribution, due to lack of adequate infrastructure facilities. BSNL has tied up with private vendors to make its products easily available to the rural segment.

The Postal Network

The Department of Posts has been involved in rural development for the last 150 years. With over 139,000 post offices in rural areas, it provides support in various critical functions through communication, financial services, life insurance products and other retail services. The small savings scheme which is operated through post offices helps in mobilizing the savings of rural people. The Department is also contributing to the efforts in financial inclusion by payment of benefits under various social security pension schemes viz. Indira Gandhi National Old Age Pension Scheme (IGNOAS), Indira Gandhi National Disability Pension Scheme (IGNDPS) and Indira Gandhi Matritva Sahyog Yojana (IGMSY Scheme), a Conditional Cash Transfer (CCT) Maternity Benefit Scheme. Such payments are being effected either through money orders or post office saving bank account.

The mutual fund industry can assess the strategies enumerated above and adapt best practices to penetrate the rural markets better and increase reach.

LEADING WITH TECHNOLOGY

Though the industry has seen overall growth in the last two years, it faces a significant challenge with respect to penetration into new markets and also consolidation of the industry. In the current situation, there is an urgent need to scale up business in cities beyond Tier I, along with retaining existing customers.

There is immense scope for the unprecedented growth of the industry and this can be rooted back to innovative and efficient use of technology. With increasing competition in this space, it is imperative that funds are prepared for investment in technology to both widen customer base as well as operate efficiently.

1. Customer and business partner engagement: Customer Relationship Management technologies
2. Creating data warehouses by integrating registrar data with finance, Human Resources and other internal data

3. Leveraging analytics to up-sell and cross-sell
4. Digital strategy enabling sales channels with mobiles or tablets
5. Social media as a new marketing platform

Investor Awareness: What is being Done Differently Today

AMFI's contribution to Investor Awareness

AMFI is running a 360 degree campaign, 'Savings ka naya tarika', which was first launched in September 2011. This nation-wide campaign with a budget of 100 million INR proved to be extremely successful, receiving a response of over 30,000 messages (SMS) from investors. Mutual fund booklets were sent out to these people who had responded to this campaign, with a call centre also being set-up to address queries of investors.

In addition to this, AMFI has also launched television commercials to reach out to a larger audience and spread investor education to attract more retail participation.

CONCLUSION

Mutual funds have now become one of the primary areas for the nation's financial growth. However, the true potential of the sector is yet to be unleashed as the challenges which the industry is facing is hindering its growth. The mutual fund industry is governed to a great extent by the economic situation in the country, which is predicted to kindle volatility due to the upcoming elections in 2014. The current economic scenario with sticky inflation and rising fuel prices is likely to adversely impact perceptions, resulting in depressed equity inflows into the market. Steps need to be taken to instil confidence in the minds of the investor and to encourage him to invest in mutual funds, even in times of uncertainty.

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