While mutual funds are major players in most established financial markets, they are relatively new to Indian investors. The first Indian mutual fund scheme (from Unit Trust of India) was offered in 1964, but it wasn’t until the 1990s that the investor was provided with an array of fund choices of varying investment objectives and quality. Given the dearth of longer-term investment options in emerging markets such as India, one would expect mutual funds to become popular once made available. Yet, that has not happened. Investments in security related investments, including mutual funds, have hovered around 4 to 5% of household savings for more than a decade despite significant governmental concessions. Physical assets such as real estate and gold and the safer bank deposits continue to be the savings vehicle of choice for Indian investors. Why haven’t mutual funds got the attention of the Indian investor?

The first part of this article raises key issues relevant to the mutual funds and their related academic research, such as the ownership/affiliation of mutual funds, the performance of mutual funds in terms of the risk-adjusted returns they provide to investors, the fees that they charge, the type of investments they make, and the agency/moral hazard issues that arise in managing others’ money, and so on. In its second part, this article records the views of important practitioners who have witnessed and participated in the evolution of the mutual fund industry in India as fund managers and regulators, as expressed in the round table discussion on mutual funds organised by IIMB Management Review. Sankaran Naren, CIO of Equities from ICICI Prudential Mutual Fund, observed that though the mutual fund industry has grown significantly since 2004, it is relatively small (for e.g., the Indian equity mutual funds account for only 3% of the total market capitalisation while the US equity funds account for 30%) despite the investor-friendly taxation and regulatory framework in the country. He attributed this to the tendency of Indians to trade short-term in equities rather than invest in mutual funds with a long term view, and the fact that two other asset classes, gold and real estate, have managed to give much better returns with much lower volatility. However, despite the short-term uncertainty, he felt that with better awareness and investor education, investment in equity mutual funds was going to increase significantly over the next 10-20 years.

Reiterating the issues of poor financial literacy of the Indian investor, and equity as an asset class being viewed in a short term manner, Sandesh Kirkire, CEO of Kotak Mahindra Asset Management Company, opined that the issue of financial literacy has to be addressed globally by bringing more investments into the capital markets through long term core savings. He observed that the "longest investment" that the Indian citizen makes, the provident fund, does not participate in the equity markets. Putting forward the regulatory perspective, K. N. Vaidyanathan, currently Chief Risk Officer, Mahindra Group and formerly Executive Director, Securities and Exchange Board of India (SEBI), said that government policy to the mutual fund industry is more in the realm of tax arbitrage rather than providing a positive environment for growth. Further, he added, that our approach of developing regulators around products rather than functions have not aided the asset management industry. Prof Venky Panchapagesan of IIMB anchored the discussion and highlighted the fact that there is a dearth of objective, scientific research on Indian mutual funds to help investors, unlike in developed countries such as the US.