

Mutual funds & financial inclusion

Namrita Singh Ahluwalia^{a*}, Dr. Mohit Gupta

^a*P.G. Department of Commerce & Management,*

GHG Khalsa College, Gurusar Sadhar, Ludhiana, Punjab, India.

^b*Assistant Professor in School of Business Studies, Punjab Agricultural University, Ludhiana, Punjab, India.*

^{*}*e-mail :*

Abstract

The landscape of financial sector in India is continuously evolving. Mutual funds as an investment vehicle have shown robust growth levels even when the global economy was under turmoil. But despite this growth, the tremendous scope of Indian financial market is yet unexplored because of low penetration level in India as compared to the global standards. The mutual funds can harness this untapped potential especially the naïve investors in semi-urban and rural areas of India. Through financial literacy and focused approach, a conducive environment that supports and benefits all stake holders can be created. This chapter is divided into two parts. The first part provides an overview of the journey of mutual funds in India and the second part highlights the untapped potential and the challenges that require a concrete action plan for attainment of sustainable growth through financial inclusion.

Keywords. *Mutual funds, Financial Inclusion*

1. Introduction

Mutual fund is one of those financial innovations which have provided an excellent platform for diversified investment to investors from all walks of life. Any investor, no matter how big or small; retail or non- retail; can participate and play the bets on virtually any asset through the use of mutual funds. It has opened the gates of share or commodity trading which were felt to be reserved for the rich or elite. According to the Securities and Exchange Board of India, mutual fund is defined as 'A fund established in the form of a trust to raise monies through the sale of units to the public or a section of the public under one or more schemes for investing in securities, including money market instruments or gold or gold related instruments¹. Worldwide, lot of emphasis has been given on financial inclusion and its various components. Financial inclusion becomes predominantly important in context of emerging economies. In Indian context, according to Dr. C. Rangarajan [2], the Ex-Chairman of the Committee on Financial Inclusion, 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. But, financial inclusion has been defined in a broader sense by Dr. Raghuram G. Rajan [3], Former RBI Governor, as the universal access to a wide range of financial services at a reasonable cost. These include not only the banking products but also other financial services such as insurance and equity products.

According to Anjaria and Anjaria [4] a mutual fund is a common pool of money into which investors place their contributions that are to be invested according to the stated objective. The ownership of fund is thus 'mutual'; that is the fund belongs to all the investors. A single investor's ownership of the fund is in same proportion as the amount of the contribution made by him or her bears to the total amount of fund. Although, historians may differ on the exact genesis of mutual funds, the origin of mutual funds has been traced back to formation of 'Societe Generale de Beligque' in 1822 at Brussels. It was intended to facilitate small investments in foreign government loans, which at that time offered more security and returns than the home industry. Historically, mutual funds in UK and USA began as private enterprise, known as investment trust. An individual using his financial abilities and judgment would create an

investment trust for the benefit of a group and would, in turn, retain a percentage of profits made from the joint investments. Unit trusts are created by a trust deed. The first unit trust appeared in 1931, shortly after the Wall Street crash.

The mutual fund industry in India started in 1963 with the formation of Unit Trust of India, as an initiative of the Government of India and Reserve Bank of India. The Association of Mutual Funds in India (AMFI) [5] has officially classified the first four decades of mutual funds in India into four phases. The first phase during the years 1963-1987 saw Unit Trust of India (UTI) being established by an Act of Parliament; consolidating its position by offering a variety of products; and extending its reach throughout the country. At the end of 1988, UTI had Rs. 6,700 crores of assets under management and was the sole player in the market. The next phase (1987-93) marked the arrival of mutual funds sponsored by public sector banks and financial institutions and by the end of second phase the total assets under management in Indian mutual fund industry touched Rs 47004 crores, approximately 7 times as of at the end of first phase [6]. The third phase began in 1993, ushering a new era for the Indian mutual fund industry with the arrival of private sector players, both Indian and foreign and thus, giving the Indian investors a wider choice of fund families. The private sector saw dramatic growth in this period. The inclusion of private sector asset management companies in Indian mutual fund

industry helped enlarge the investor community; the number of mutual fund houses; and also, the number of mergers and acquisitions. At the end of January 2003, there were 33 mutual funds with total assets of Rs. 1,21,805crores. The Unit Trust of India with Rs. 44,541 crores of assets under management was way ahead of other mutual funds. The Phase 4 (2003 onwards) saw bifurcation of UTI into two segments namely UTI I and UTI II due to major financial and governance issues. UTI II later came to be known as UTI mutual fund. Fund sector which was first shocked by UTI, later recovered to register phenomenal growth.

Data Source: AMFI5

Note: Erstwhile UTI was bifurcated into UTI Mutual Fund and the Specified Undertaking of the Unit Trust of India effective from February 2003. The Assets under management of the Specified Undertaking of the Unit Trust of India has therefore been excluded from the total assets of the industry as a whole from February 2003 onwards. The extent of growth can be seen from the initial 25 crores in 1965 to a whopping 2337118 crores in January 2019 (Figure 1).

At present, there are funds sponsored by nationalized banks, public sector financial institutions, Indian private sector, joint ventures predominantly Indian, joint ventures predominantly foreign and pure foreign players representing a wide diversity of ownership of sponsors and asset management companies (AMCs). The foreign players have come

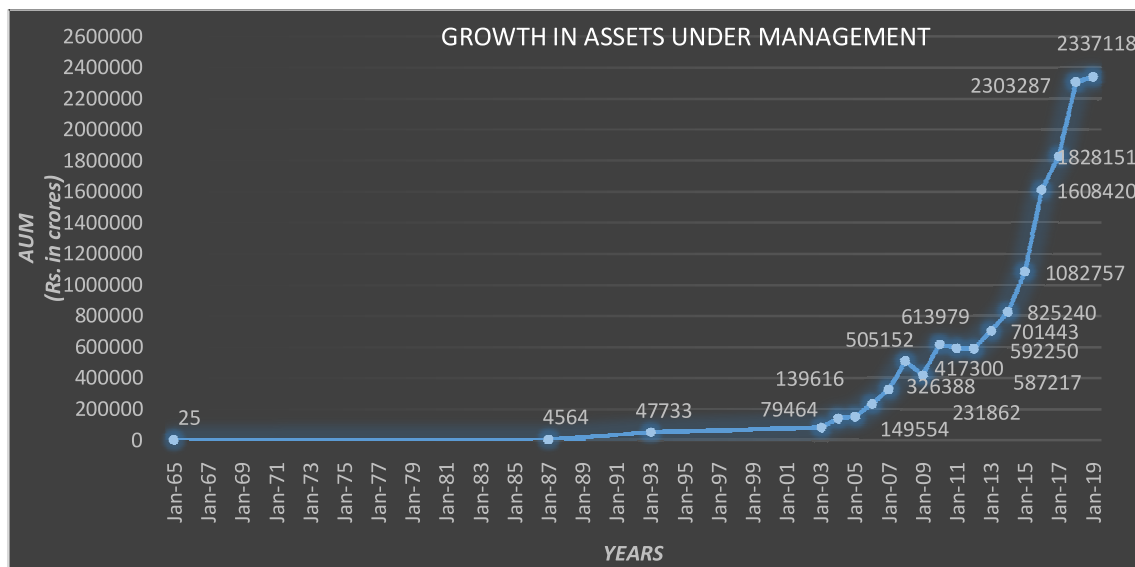


Figure 1. Growth in Assets Under Management

from USA, Canada, UK, Europe and a few countries in the east. The graph (figure 1) indicates the growth of assets over the years.

In India, both open ended and close ended funds operate under the same regulatory structure and are constituted as unit trusts. The structure of mutual fund is laid down under SEBI (Mutual Fund) regulations, 1996. All the mutual funds have to be registered with SEBI. Further, asset management companies and corporate trustees are registered as companies under the Companies Act, 1956, and are therefore, subject to be regulated under its provisions. The various constituents of the mutual fund in India are – fund sponsor, board of trustees, asset management company and custodian.

2. Literature Review

The G20 leaders have endorsed three high-level principles: innovative financial inclusion, financial consumer protection and national strategies for financial education, since 2010. It has also been recognised that these three elements when integrated would essentially lead to reinforcement of the financial system and enhancement of the financial well-being of individuals. The same is evident in Maya declaration (2011) [7] which is an Alliance for Financial Inclusion's (AFI) initiative to encourage national commitments to financial inclusion. It is endorsed by regulatory bodies in developing and emerging countries and includes the commitment to recognise 'consumer protection and empowerment as key pillars of financial inclusion efforts to ensure that all people are included in their country's financial sector'.

Atkinson, A. and F. Messy (2013) [8] found that financial inclusion is an international policy priority and demand-side initiatives including financial education have an important role to play in helping individuals to access and use appropriate formal financial products. Many countries through their national policies provide a framework for improving financial inclusion alongside financial literacy by targeting the financially excluded within a financial education framework. In 2010, the G20, recognising the importance of financial inclusion policy across G20 member countries and others, endorsed a Financial Inclusion Action Plan and established the

Global Partnership for Financial Inclusion (GPII) as an implementing mechanism.

While the popularity of the mutual fund industry can be attributed to growing investor awareness, success of investor education campaigns, and an investor centric regulatory regime, the most crucial factor that will decide the future course of the industry is its performance⁴.

Amarnath, Reddy, and Thulasi (2012) [9] pointed out that certain sections like marginal farmers, landless labourers, oral lessees, self-employed and unorganised sector enterprises, urban slum dwellers, ethnic minorities and socially excluded groups, senior citizens, women population etc. are financially excluded in India due to various reasons like lack of education especially financial literacy, lack of legal identity, psychological barriers and under developed financial support systems. Gokarn [10] suggested that the participation of all sections of the society in mutual funds can be ensured by developing attractive schemes for low income groups especially in rural areas so as to achieve sustained development of financial markets and economy as a whole. Dunna [11] argued that a collective effort with strong support system and distribution network involving banks, distribution services and technological link-up for a cost-effective model is a pre-requisite for sustainable penetration of mutual funds in rural regions. It recommended a collaboration of regulators, fund managers and investors for developing market for mutual fund industry. Jani and Jain [12] found that the buying behaviour of both urban and rural investors was significantly impacted by age, gender, occupation, educational qualification and income. The study further revealed that both types of investors, for taking an investment decision, trusted a financial planner more than the past performance and weighed brand the least. Kandpal and Kavidayal [13] found that the marketing strategies of both public and private mutual funds need to stress on the firms-product-customer relationship and due to biasness for urban investors they have failed to address the psychology and expectations of rural investors. Baral [14] suggested customer awareness as 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. Singh and Sharma [15] suggested that mobile penetration in rural areas can be used for creating awareness by providing a platform for people in rural areas to track the NAV's of their schemes through internet on their mobiles. Extensive network of post offices in rural areas can be exploited to distribute mutual fund products of public sector banks like SBI to rural households. Replicating the model adopted for Jan Dhan savings accounts as well as using the payment banks to sell mutual funds, could lead to further increase in the customer base.

The financial institutions has a crucial role to play as they have to extend their financial services beyond core banking activities and extend it to selling and providing awareness campaign about financial products like mutual funds, insurance , stocks and derivative products. The delivery of banking services or financial services would now actually mean the delivery of all kind of services to the poor and lower income people in association with the other entities.

3. Mutual Funds and Financial Inclusion in India

Mutual fund industry in India dates back to 1963, with the formation of Unit Trust of India as a Government of India and Reserve Bank of India initiative. Over the years the mutual fund industry has witnessed tremendous growth with the entry of numerous mutual fund players offering a number of products across asset classes.

As of December 2018, India has more than a thousand mutual fund schemes as compared to 9 schemes in 1993 available for investors. The mutual funds have added an asset base of staggering Rs. 12.55 lakh crores since 2015 pushed by strong participation of retail investors and robust inflow in equity funds. This spread was across 42 active players, witnessing an increase of 53.7% in average assets under management (AUM) since January 2015 till January 2019, according to data available with industry body - Association of Mutual Fund (AMFI)5. However, AUM/GDP ratio of 11% although has grown from 6.5% in 2016 but is still low as compared to

international standards (figure 2) and points towards a large untapped market potential.

Source: www.equitymasters.com [16]

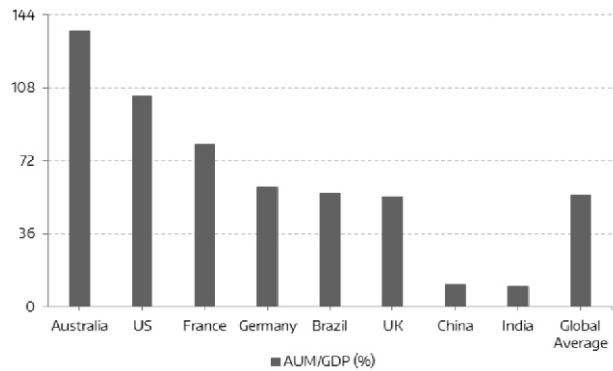


Figure 2. AUM/GDP ratio global comparison

According to RBI, Tier1 cities are those which have population of 100000 and above; Tier 2 cities as those having a population base of 50,000 and above, while Tier 3 cities as those having a population base of upto 50,000. Only a small proportion of the districts have been a part of the mutual fund bandwagon till date although the trend is fast changing.

Mutual funds offer low risk, high returns, high liquidity, safety and no-long term taxation and are thus, ideal for entering the capital market. In a study conducted by Chakrabartiet al [17] by dividing Indian districts into deciles based on domestic product and studied AUM/GDP ratio across these deciles (figure 3), the results highlighted the first decile as the biggest contributor with its ratio being comparable to that of developed economies like the UK (40%) and EU member nations (41%) but the ratios for rest of the deciles were found to be abysmally low especially in the 5th to 10thdecile and this emphasizes the need for financial inclusion (figure 3).

AUM/GDP	Region
1st Decile	29.53%
2nd Decile	2.82%
3rd Decile	3.72%
4th Decile	1.89%
5th to 10th Decile	Less than 1.00%

Figure 3. AUM/GDP ratios across deciles

Source: Chakrabartiet al (2014) [17]

Similar results were evident in a study conducted by Mc Kinsey and Company [18] in which the distribution of assets was found to be unequal among various Indian cities despite the overall industry posting a scenario of growth. Over the last four years, the distribution of AUM between the top 15 cities by GDP (T15) and the remaining cities reveals that the share of B15 cities (those below the top 15), such as Udaipur, Patna, Nagpur, Nasik, Alwar, Kozhikode etc., has seen significant growth of nearly 18 to 20% of the industry's total AUM. Even within the T15 cities, the top five alone contribute to approximately 72 per cent of the total AUM at present, thus supporting the results of above study (figure 4).

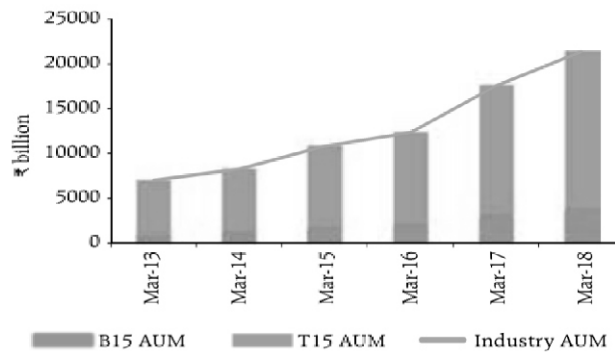


Figure 4. MF's Growth in B-15 Cities

(Source: RBI Financial Stability Report 2018)²⁹

But, the past two years have seen an upswing trend in mutual fund investment from the B-15 and T-15 cities with the assets at the end of March 2018 growing to nearly Rs. 20000 billion. AUM from B-15 cities has grown 223 per cent during the 5-year period from 2013 -14. The focus is now on increasing the reach to the B30 cities.¹⁹

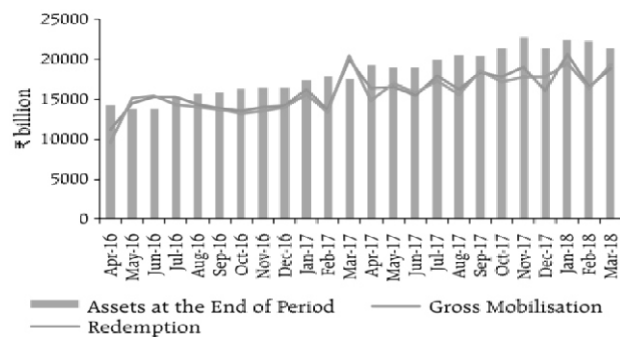


Figure 5. Resource Mobilisation and AUM

(Source: RBI Financial Stability Report 2018) [19]

This follows an addition of over 1.6 crore investor accounts in 2017-18 and 59 lakh in 2015-16. The total number of accounts in the mutual fund industry as of March 2018 stands at 71347301 accounts of which 99% are by investors (Figure 5). Of the total accounts 95.24% accounts are of retail investors; 3.78% of High Net worth Individuals (HNI); and 0.972% of institutional investors. The industry has seen a rise of 43.57% in investor accounts to more than 7 crores in 2018 from 3.95 crore accounts in 2014 (figure 6).



Figure 6. Increase in number of investor accounts in the mutual fund industry of India (in crores)

Source: AMF¹⁵

The T15 locations have been the major contributors of institutional assets which account for 90.13% of the total assets whereas 16% of the assets of the mutual fund industry came from B15 locations in June 2018. The contribution of cities beyond the top 15 had a surge of 44.6% in 2018 from 2015 (figure 7).

Year	Beyond top 15 cities AUM (in Rs. Trillion)	% Growth in AUM (y-o-y)	Top 15 cities AUM (in Rs. Trillion)	% Growth in AUM (y-o-y)
2015	1.89	NA	10.21	NA
2016	2.18	15.3	11.36	11.3
2017	3.09	41.7	15.48	36.3
2018	4.26	37.9	18.44	19.1

Figure 7. Percentage Growth in AUM (y-o-y)

Source: AMFI²⁸

Also, in opposition to the popular belief, a weak correlation is seen between banking penetration and penetration of Mutual Funds in any region in India. The number of bank outlets present in the rural region of the country are more than the combined number of reporting offices of banks in urban and metropolitan cities.

excluded population. The scheme includes bundling of various services and is not just limited to opening of a bank account. It includes advantages viz. zero balance bank account with RuPay debit card, accidental insurance cover, life insurance cover etc. There has been a marked increase in the number of bank accounts opened after the launch of this scheme. This scheme helped in registering a 3 digit growth

Important Indicators		Sep-2018	Dec-2017	Sep-2017	Dec-2016	Sep-2016	Dec-2015
		1	2	3	4	5	6
All Scheduled Commercial Banks		149	149	148	146	148	146
of which, Regional Rural Banks		56	56	56	56	56	56
No. of Reporting Offices							
1	Rural	51300	50540	50319	49224	48915	47415
2	Semi-urban	41077	40001	39880	38953	38606	37373
3	Urban	28130	27727	27609	26877	26649	25588
4	Metropolitan	30440	29999	30002	29380	29145	27861
TOTAL		150947	148167	147810	144434	143315	138237

Figure 8. Total number of banks and their reporting offices in India Source: RBI [20]

Since December 2015, the growth in bank outlets in rural region has been 7.57% and 9.04% and 8.47% in urban and metropolitan cities, respectively, till September 2018 (Figure 8). The growth in penetration of mutual funds in the rural regions of the country does not correlate to the growth in number of bank outlets across rural India. With India having one of the highest savings rate in the world and with the bulk increase in the opening of bank accounts after the launch of PradhanMantri Jan Dhan Yojana⁶ on August 28, 2014, the surplus income from savings can be channelled for investment into Mutual Funds with the involvement of banks as customer touch points.

The PMJDY scheme was launched by Government of India for extending formal financial services to the

rate in the number of accounts for rural as well as urban sectors (Figure 6). Under PMJDY, the number of accounts in rural and urban areas has experienced a marked shift with a change of 82.66% and 82.72%, respectively, between 2014 and 2018, as shown in (figure 9).

Also, a marked decrease has been seen in the trend for number of accounts with zero balance (Figure 10). As of December 2018, there are 33.66 crore accounts under PradhanMantri Jan Dhan Yojana (PMJDY)²¹. Out of these accounts, 28.16 crore PMJDY accounts are operative accounts. About 55% of the account holders are women and 83% of the accounts are seeded with Aadhaar²¹.

	Rural		Urban		No. of Accounts		No. of RuPay Debit Cards	
	2018	2014	2018	2014	2018	2014	2018	2014
Public Sector	13.47	2.37	11.62	2.03	25.09	4.4	19.07	1.81
Bank								
Regional Rural Bank	4.21	0.75	0.78	0.11	4.99	0.86	3.67	0.04
Private Bank	0.6	0.57	0.39	0.06	0.99	0.12	0.92	0.01
Grand Total	18.28	3.17	12.79	2.21	31.07	5.38	23.66	1.86
Change	82.66%		82.72%		82.68%		92.14%	

Figure 9. Number of accounts opened under PMJDY since its launch (in crores) Source: www.pmjdy.gov.in [21]

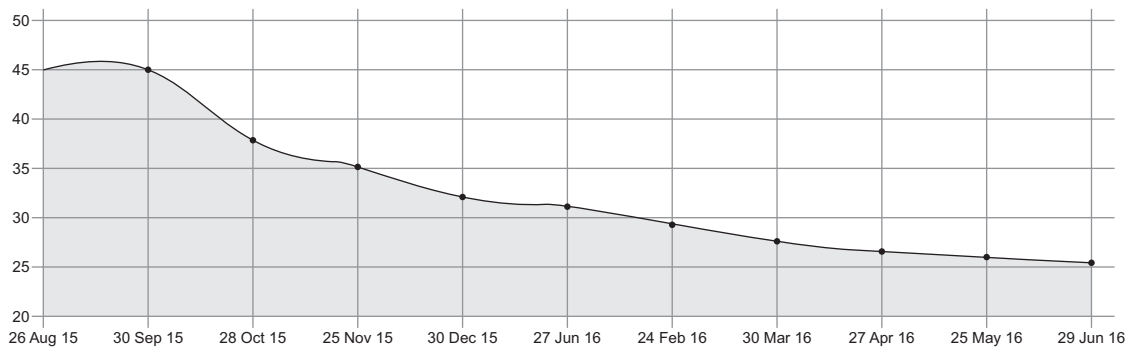


Figure 10. Trend of Zero Balance Accounts under PMJDY (%) Source: www.pmjdy.gov.in21

Source: www.pmjdy.gov.in21

Our banking network can act as the link between financially excluded population and the financial service providers like the mutual funds²². Through banks, the prospective investors can be made aware of the benefits of investing in a mutual fund like ease of investment, ample investment opportunities, professional management, diversification, affordability, tax benefits and reduced transaction costs on account of the buying and selling size of the funds. Even though there are benefits of investing in mutual funds but still a large portion of population is yet to reap them. The major reasons for the same are financial illiteracy [23] and complexity of mutual fund world due to presence of more than a thousand schemes. For attracting the financially excluded or financially marginalised population into the mutual fund world less number of core schemes should be put forth to them through the touch points along with organization of various awareness programs.

Financial education, financial inclusion and financial stability are three elements of an integral strategy²⁴, as shown in the diagram below (figure 11).

Source: RBI²⁴

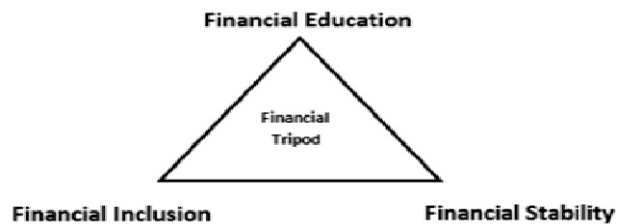


Figure 11. The Financial Tripod

Initiatives such as setting up Rural Development and Self-Employment Training Institutes (RUDSETIs) and Financial Literacy and Credit Counselling Centres (FLCCs) by different banks are aimed at ensuring financial literacy. The fund houses have conducted awareness programmes from time to time. But, there is still a long way to go, considering only 1.5% of Indian population invests in mutual funds.

'Mutual Funds SahiHai' campaign by AMFI has been successful in making the mutual funds less intimidating and in attracting those savers and investors with a preference for bank deposits and physical assets.

The campaign reaches out to the masses through traditional (TV, Print, Radio, Out of home etc.), digital as well as innovative media such as jingles in Mumbai locals, integration with web series and branding long distance trains. The campaign has hit the ground running. The increased awareness reach for the masses has added more than 5 million new investors between March 2017 and June 2018.

If the requirements of investors are mapped according

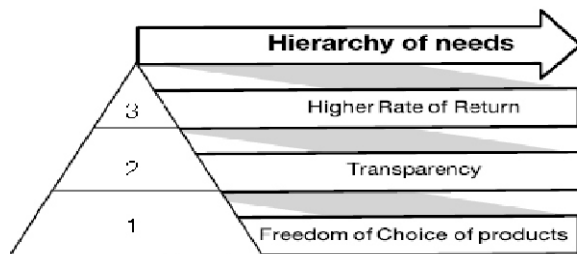


Figure 12. Hierarchy of needs of investors

Source: Confederation of Indian Industry

to the Maslow's need hierarchy theory (figure 12), then, the new age investor demands higher rate of returns, more transparency, more alternatives and the freedom to choose. The needs of investors differ in urban cities to those in smaller towns, hence these should be gauged and programs for inclusive approach should be developed accordingly.

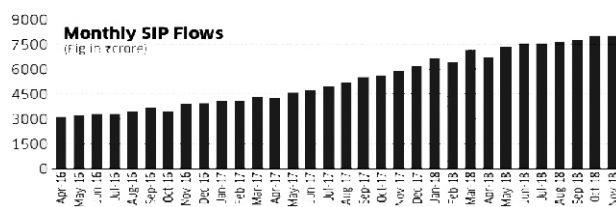


Figure 13. Monthly SIP Inflows

Source: AMF¹⁵

Due to the rising acceptance of mutual fund investments among retail investors, the share of equity investments in India's household assets has reached a decade high of 4.6 per cent in the financial year 2018 which is the highest since 2008. The major

change has been witnessed in the route of investment. In 2008, direct equity investment was the path chosen for investing while in 2018, investors opted for the systematic investment plans (SIPs) of mutual funds. This is evident from the fall to 11.7% from 13.1% in the direct retail holding of the BSE 500 index stocks in March 2018 as compared to 2008, whereas, the equity assets under management of the mutual funds and the mutual fund inflows registered a four-fold increase during the decade. SIP monthly inflows touched Rs. 8,200 crore in December 2018 from Rs. 3,122 crore in March 2016. For financial inclusion and financial stability of the financially excluded population who are not in a situation to weigh the pros and cons of the schemes, Systematic Investment Plan (SIP) which allows investment of fixed amount at regular intervals, and at considerably low risk, is a worthy investment mode. It would be most suited if the minimum investment was to be set at as low as Rs. 50 or 20.

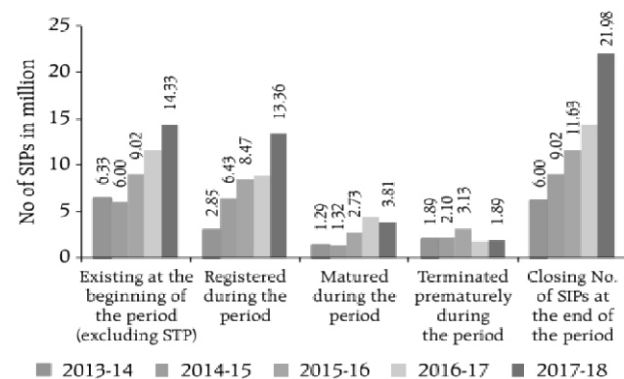


Figure 14. Growth in number of SIPs

Source: AMFI⁵

As per CRISIL Research [25] and AMFI data, Exchange Traded Funds (ETF's) should be given a boost and brought into increased focus for the investors. The actively managed funds govern the domestic mutual fund industry. As of March 2018, only 4% of the mutual fund assets were in passive funds. However, at a CAGR of 34% the growth in assets of passive funds has been recorded to be more than 19 times in the past 10 years. The major factor behind this impressive growth is the investment by the Employees' Provident Fund Organisation (EPFO) in passive funds and equity exchange traded funds (ETFs) have benefited the most due to it. Also, Gold ETFs serve as a good investment option in times of

market volatility. These products prove to be a viable solution for risk averse investors, without diluting the urge to have the physical asset. Although, there has been a marked decline in Gold ETF's due to sharp increase in the Equity ETF's (figure 15).

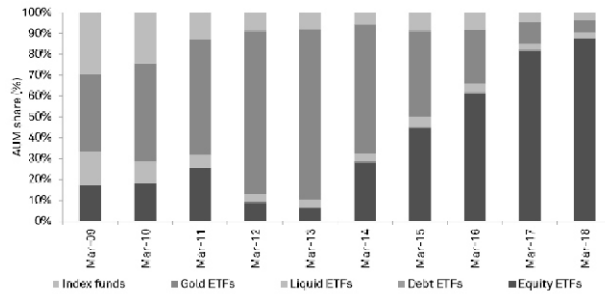


Figure 15. Domination of ETF's in passive funds

Source: CRISIL Research²⁵ and AMFI⁵

Mutual Funds, also, need distributors who are able to inform the investors about the efficacy of a Mutual Fund scheme with a particular risk profile. According to AMFI, the top 15 locations have been the major contributors of individual assets and are primarily distributor driven. The T15 cities generated 65% of the assets of Individual investors who invested through distributors.

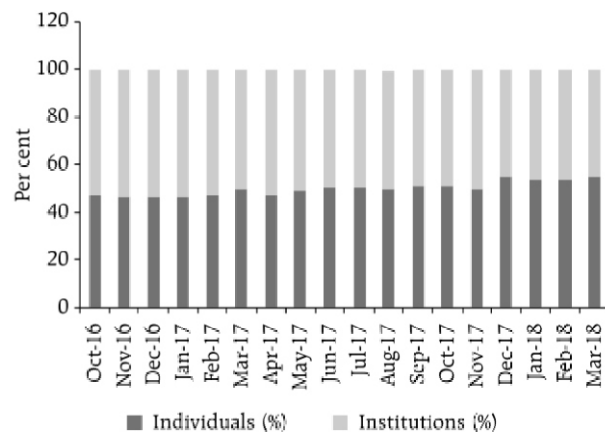


Figure 16. Holdings in MF's AUM⁵

The direct investments in mutual funds by individuals amount to 14% of individual assets, divided as 3% from B15 and 11% from T15 cities, respectively. About 89% of the retail investors chose to invest through distributors, while 16% of HNI assets were invested directly. Nearly 60% of the assets of the mutual fund industry came through distributors (figure 16 & 17).

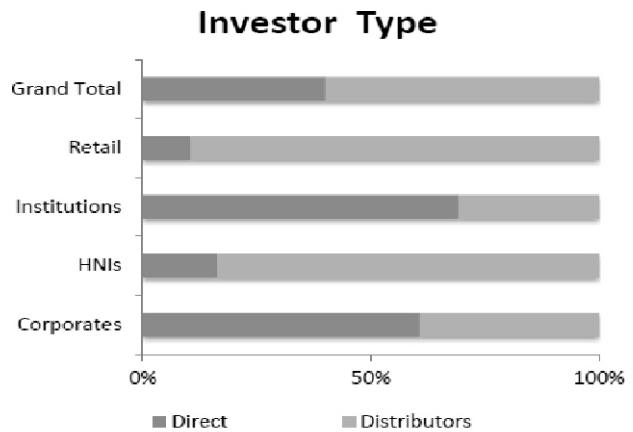


Figure 17. Investor type

Source: AMFI⁵

For the mutual funds to tap the untapped population, the distributor network needs to be essentially strong. The mutual fund gross commissions of the top 15 distributors had an incremental growth of 80% in financial year 2017-18 as compared to the previous year, according to AMFI data⁵ (figure 18), driven by wide marketing campaigns by AMFI and market rally. NJ IndiainvestPvt. Ltd. maintained the top position of being the largest mutual fund distributor in India. It was closely followed by the HDFC Bank Ltd. and SBI.

Name	Gross Commission FY 2017-18 (in Rs. Crore)	Gross Commission FY 2016-17 (in Rs. Crore)	Percentage increase
1 NJ Indiainvest Pvt. Ltd	787	442	78%
2 HDFC Bank Ltd.	641	397	61%
3 SBI	558	179	212%
4 Axis Bank	538	249	116%
5 ICICI Bank	470	280	68%
6 ICICI Securities	317	173	83%
7 Kotak Mahindra Bank	274	199	38%
8 Citibank	249	185	35%
9 Prudent Corporate Advisory Services Ltd	218	99	120%
10 Standard Chartered Bank	185	120	54%
11 IIFL Wealth Management Ltd	175	157	11%
12 Indusind bank	160	67	139%
13 HSBC	121	100	21%
14 Bajaj Capital	101	65	55%
15 Anand Rathi Wealth Services Ltd	98	12	717%
Total	4892	2724	80%

Figure 18. Mutual Fund Commissions of top 15 distributors

Source: AMFI⁵

In this era of digitalisation, the mutual fund industry has begun to use technology for fund management, executing transactions, and for customer servicing as well. In fact, the haul of digitalisation in the payment spectrum, has been a major contributor for the meteoric rise of the mutual funds industry in recent years. This can be accredited to the increase in

volume of digital payments via mobile phones by more than 100 percent, through Immediate Payment Service (IMPS) by 106 percent, mobile wallets and mobile banking by over 120 percent each. Even, the more mature modes of digital payments- debit and credit cards- realized an annual growth of 15 percent (figure 19).

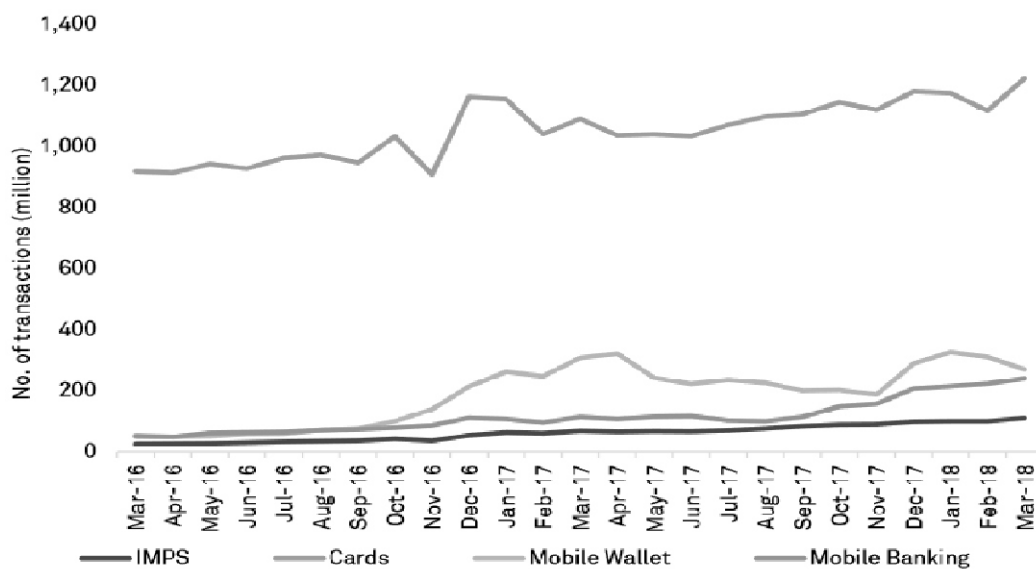


Figure 19. Volume of various digital payment modes

Source: RBI²⁴ & CRISIL Research²⁵

The digital mutual fund distributors have, thus, done well with their gross commission earned experiencing a marked three digit increase in the financial year 2017-18 (figure 20).

introduction of payment banks, small finance banks etc. The banking system in the country can play a vital role as a distribution channel for targeting masses by the mutual fund industry. The investor participation can be increased through enhanced financial

Name	Gross Commission FY 2017-18 (in Rs. Crore)	Gross Commission FY 2016-17 (in Rs. Crore)	Percentage increase
1 FundsIndia (Wealth India Financial Services)	50	25	100%
2 Scripbox	8	3.7	116%
3 Fisdrom (Finwizard Technology Pvt Ltd)	1.5	0.19	689%
Total	59.5	28.89	106%

Figure 20. Gross Commissions earned by some digital mutual fund distributors Source: AMFI5

In the mutual fund industry, the share of digital gross inflows increased from just 0.5 percent two years ago to nearly 10 percent in June 2018 (figure 21). An increasing adoption of technology by the industry will also lead to reduced overheads and costs in the long run, thus, benefitting the industry and its stakeholders as a whole.

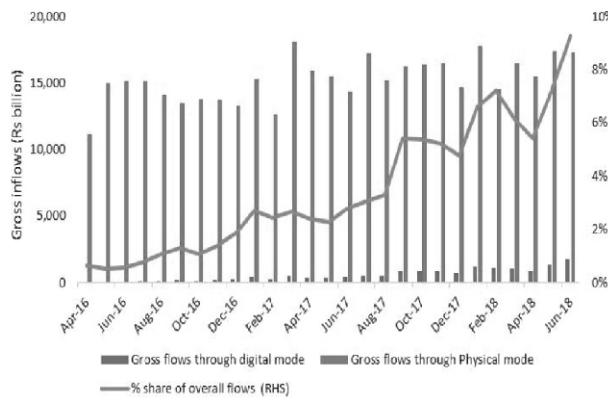


Figure 21. Share of digital mode inflows in overall flows

Source: AMFI5 and www.forbesindia.com [26]

4. Conclusion

Mutual Fund industry with an array of investment opportunities can, clearly, play a significant role in financial development. It has an untapped potential for becoming a potential tool for financial inclusion. Through several initiatives, the government and the market regulators have boosted the fintech ecosystem and improved the financial inclusion through

awareness; supportive regulatory environment that encourages distributors to form a strong end-link with the investor; focussed introduction investor-friendly products; and focussed penetration beyond Tier 1 and Tier 2 cities especially into the remotest parts of the country. The regulatory framework needs to be encouraging for sustained development of financial sector and the economy as a whole. Availability of information and hence, awareness have strengthened the cause of digitalisation. Clearly, the role of technology can only get bigger from here as a source of deep rooted revolution in the financial sector and its adoption can lead to a win-win situation for all – the industry, intermediaries and investors. It will deepen the industry's penetration, provide it an effective medium to improve efficiency and reduce costs, ultimately bestowing the benefits on investors and thus, lead to a synchronized financial inclusion. Thus, a collaborative roadmap involving all stakeholders of the mutual fund industry is the ultimate requirement for turning financial exclusion into sustained economic growth through financial inclusion.

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