

Impact of Technology on the Expansion of Mutual Fund Investments in India

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Abstract

The Indian Financial system encompasses dynamic financial markets, with the FinTech movement gaining momentum in recent decades. This growth is evident in various financial products offered by Financial Institutions, driven by the fundamental need to adapt to evolving consumer demands. The mutual fund industry in India has adeptly adjusted to the changing financial landscape, launching the first online mutual funds investment platform in Indonesia in 2016 to attract more investors. This study aims to assess the impact of technology on mutual fund investment growth in the post-COVID-19 era. The literature review indicates that FinTech has positively influenced financial institutions involved in mutual fund services in India. The mutual fund sector has experienced remarkable growth attributed to digitization, as customers increasingly recognize the importance of investing in humanity. Asset Under Management (AUM) has surged significantly in recent months, with improved customer satisfaction facilitated by better access to the back office, even from remote locations.

Particularly, mutual funds emerged as a safe investment during the COVID-19 pandemic, influencing their results. In conclusion, this article contributes to our understanding of financial technologies, exploring their effects on the financial sector, addressing challenges, and highlighting their potential.

Keywords: Financial Market, Capital Market, Mutual Fund Investment, FinTech, Pandemic

1. Introduction

A mutual fund is a popular investment vehicle that pools money from multiple investors and uses it to invest in a diversified portfolio of securities such as stocks, bonds, and short-term debt instruments. The combined holdings of the mutual fund are known as its portfolio. Investors buy shares in the mutual fund, which represent their ownership in the fund and entitle them to a portion of the income generated by the fund. Mutual funds are typically structured as companies or trusts, with a board of directors or trustees overseeing the fund's

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operations. The fund is managed by professional fund managers who are responsible for selecting the securities and making investment decisions on behalf of the investors.

Mutual funds have become a popular investment choice for individuals and institutional investors alike. The reasons for investing in mutual funds can be attributed to several key factors:

1.1 Professional Management

One of the primary reasons individuals invest in mutual funds is to gain access to professional investment management. Mutual funds are managed by experienced fund managers who have the expertise and resources to conduct thorough research and make informed investment decisions. The fund managers analyse market trends, evaluate securities, and determine the optimal allocation of the fund's assets. This professional management helps investors save time and effort while benefiting from the expertise of seasoned professionals.

1.2 Diversification

Diversification is a crucial aspect of any investment strategy, and mutual funds are an effective tool for achieving diversification. Mutual funds pool money from multiple investors and invest in a diversified portfolio of securities. By spreading investments across different asset classes, sectors, and geographies, mutual funds help reduce the risk associated with investing in a single security or a concentrated portfolio. Diversification can help mitigate potential losses if one investment performs poorly, as the positive performance of other holdings within the fund can offset those losses.

1.3 Affordability

Mutual funds offer affordability, allowing investors to start investing with a relatively low amount of money. Most mutual funds have a minimum investment requirement that is significantly lower than investing directly in individual securities. This accessibility enables individuals with limited capital to participate in the financial markets and benefit from professional management. Additionally, mutual funds offer the option of systematic investment plans (SIPs), which allow investors to make regular contributions to the fund at fixed intervals, further enhancing affordability.

1.4 Liquidity

Mutual funds provide investors with liquidity, allowing them to buy or sell their shares at any time. The fund will redeem the shares at the current net asset value (NAV), which represents

the value of the fund's assets minus its liabilities. This liquidity feature provides investors with the flexibility to access their investments and convert them into cash whenever needed. Unlike certain other investments, mutual funds do not impose strict lock-in periods or withdrawal restrictions, allowing investors to manage their liquidity needs effectively.

In conclusion, mutual funds offer investors a convenient and diversified investment option. By pooling money from multiple investors, mutual funds provide access to professional management, diversification, affordability, and liquidity. However, it is crucial to consider the potential risks and understand the fees associated with mutual funds. By conducting thorough research, making informed investment decisions, and staying vigilant against fraud, investors can maximize the benefits of investing in mutual funds and achieve their financial goals.

2. Literature Review

Garg (2011) A study was conducted to evaluate the performance of the top ten mutual funds, which were chosen based on their returns from the previous year. The study examined the performance of these funds using various measures such as return, standard deviation, and beta, as well as the Treynor, Jensen, and Sharpe indexes. Additionally, the study utilized Carhart's four-factor model to analyse the performance of the mutual funds. The findings indicated that the Reliance Regular Saving Scheme Fund (RRSSF) attained the highest overall score, while the Canara Robeco Infra fund received the lowest score in the one-year category.

Agarwal (2011) believed that mutual funds play a significant role in the globalization of financial markets and are a major source of capital formation in emerging economies. The pricing mechanism of the Indian mutual fund industry was analysed by the individual, considering data from both the fund manager and fund-investor levels. In recent years, the mutual fund industry in India has experienced remarkable growth and has attracted significant investments from both domestic and foreign investors. The increasing number of asset management companies (AMCs) has created ample opportunities for investors, offering safety, hedging, arbitrage, and limited risk with the potential for better returns compared to other long-term securities. As a result, more investors are being drawn toward mutual fund investments.

Yadav and Yadav (2012) In their article titled "A Comparative Study of Mutual Funds and Foreign Institutional Investors in the Indian Stock Market", they conducted an analysis comparing the investment activities of mutual funds and Foreign Institutional Investors

(FIIs). The study revealed that, despite India being an appealing investment destination for FIIs, mutual funds actually made larger investments than FIIs. During the recession, the mutual fund industry played a crucial role in boosting the economy, as FIIs withdrew their investments. This highlights the significance of mutual funds in the Indian economy.

According to Alekhya (2012), The study aimed to assess and compare the performance of mutual fund schemes in the public and private sectors. Specifically, the paper focused on the performance of equity schemes within mutual funds over a three-year period from 2009 to 2011. The performance of the funds was evaluated and ranked based on measures such as Sharpe ratio, Treynor ratio, and Jensen's alpha.

Rekha (2012) has undertaken a study titled "Growth of Indian Mutual Fund Industry-A Review" where they explore the history of mutual funds in India. The mutual fund industry was initiated with the establishment of the Unit Trust of India (UTI) in 1964, which held a monopoly until 1987. In 1987, public sector banks were authorized to establish mutual funds. Subsequently, from 1993 onwards, the private sector and foreign institutions were permitted to set up mutual funds. As of March 2011, there were a total of 41 fund houses offering 1,131 schemes, with assets under management valued at Rs. 5,92,250 crores. Her conclusion was that the Indian mutual fund industry is expected to experience a significant growth in assets under management (AUM) in the coming years. To facilitate this growth, fund houses should focus on introducing innovative products, delivering efficient customer service, and utilizing supportive technologies. Additionally, there is a need for the mutual fund industry to create products that meet the specific needs of customers, while also educating them on how these products can serve their needs.

The Indian Chamber of Commerce and Ernst and Young (2014) conducted the Indian Asset Management Outlook Survey 2014. The report titled "Indian Mutual Fund Industry Vision 2015" provides insights from asset managers regarding the Indian market. The report includes an assessment of the current state of the mutual fund industry and explores future developments. Key findings from the report indicate that the retail and institutional segments have been equally responsible for the robust growth of the Indian mutual fund industry. The industry has witnessed significant growth due to a thriving economy and a favorable regulatory environment. From 2003-08, mutual fund Assets Under Management (AUM) witnessed a rapid Compound Annual Growth Rate (CAGR) of 47%, reaching a high of INR 6 trillion or USD 150 billion.

According to Das and Ali (2020) conducted a study to assess how India's financial services sector is affected by the swift advancements in financial technologies. The application of financial technologies in the contemporary financial services industries has been the subject of a descriptive research. We've talked about how financial technologies are affecting India's current financial system as well as the difficulties and risks regulators confront when trying to control new, disruptive technologies. The Asset Under Management, or AUM, has increased dramatically in the last few months. Better access to the back office, even from remote locations, has improved customer satisfaction. Furthermore, the article has addressed the difficulties that regulators have since they still do not completely comprehend the implications of the rapidly evolving technology environment.

3. Objectives of the study

From the literature reviewed this study is focused on the given objectives:

1. To understand the current status of Mutual Funds.
2. To study the impact of technology on the growth of mutual funds.
3. To study the future trends of the Financial Market.

4. Research Methodology

In this research data is collected from secondary sources. It will be collected from the websites, published research papers, conference proceedings, journals, magazines, government publications, reports of committees and commissions, and publications of the Reserve Bank of India, websites of the Indian Banking Association, National Informatics Centre, bank circulars, etc. an exploratory research has been done to find the results.

5. Analysis and Interpretation

5.1 The Evolution of Technology in the Financial Market

The financial market has undergone a significant transformation in recent years, thanks to the rapid advancements in technology. From artificial intelligence (AI) and big data to robo-advisory platforms and digital payment options, technology has revolutionized the way investors manage their portfolios and interact with the financial services industry. In this article, we will explore the impact of technology on the financial market, particularly in the context of mutual fund investments.

5.2 Technology Reshaping the Financial Services Industry

The financial services industry has witnessed a wave of technological innovation, leading to a fundamental shift in the way financial transactions are conducted. This transformation has been driven by various factors, including the increasing adoption of digital platforms, the availability of real-time market data, and the development of sophisticated algorithms.

5.2.1 The Rise of FinTech

The emergence of FinTech companies has played a pivotal role in reshaping the financial services industry. These companies leverage technology to provide convenient, user-friendly, and cost-effective solutions for investors. From robo-advisory platforms that use AI algorithms to provide personalized investment advice to data analytics tools that offer valuable insights for informed decision-making, FinTech has revolutionized the way investors interact with the financial market.

5.2.2 Enhanced Access and Convenience

Technology has made the financial market more accessible than ever before. Online trading platforms and mobile applications have made it convenient for investors to buy and sell stocks, bonds, and other assets from the comfort of their homes. The introduction of e-payment options in mutual funds has simplified the investment process, allowing investors to transact and manage their mutual fund investments with just a few clicks.

5.2.3 Automation and Efficiency

The automation of trading processes through algorithmic trading systems has improved the efficiency of the financial market. These systems can analyse vast amounts of data and generate trading signals, enabling investors to make informed decisions quickly. Additionally, technology has streamlined back-office operations, reducing paperwork and manual effort for mutual fund companies.

5.2.4 Data-Driven Insights

The availability of big data and advanced analytics has empowered investors with valuable insights into market trends, investment opportunities, and portfolio performance. Data analytics tools can analyse historical data, market trends, and investor behaviour to offer

personalized investment recommendations. Investors can access real-time updates, track their investments, and make informed decisions based on data-driven insights.

5.3 The Impact of Technology on Mutual Fund Investments

Mutual fund investments have experienced a significant impact from technological advancements. The integration of technology has revolutionized various aspects of mutual fund investments, including payment options, customer experience, and product innovation.

5.3.1 E-Payments and Convenience

The introduction of e-payment options in mutual funds has transformed the way investors transact and manage their investments. E-payments allow for the electronic transfer of funds from an investor's bank account to the mutual fund company, eliminating the need for physical instruments like cheques. This convenience has made it easier for investors to initiate transactions instantly, without the need to visit a branch or send documents through mail.

5.3.2 Robo-Advisory and Personalized Investment Advice

Robo-advisory platforms have gained popularity in the mutual fund industry, providing investors with personalized investment advice and portfolio management. These platforms leverage algorithms and automation to analyse investor preferences, risk tolerance, and financial goals, suggesting suitable mutual fund investment options. Robo-advisors offer streamlined and customized investment recommendations, making it easier for investors to enter the mutual fund market.

5.3.3 Transparency and Efficiency

Technology has brought transparency and efficiency to mutual fund investments. Investors can access their transaction history, account statements, and portfolio details online, providing real-time updates and insights into their mutual fund holdings. This transparency promotes better financial planning and decision-making, empowering investors with timely information.

5.3.4 Product Innovation and Customization

Technology has enabled mutual fund managers to innovate and tailor investment products to meet changing investor expectations. Investors today, particularly millennials, are looking for products that align with their values, offer higher returns, and provide a tech-enabled experience. Mutual fund managers are leveraging technology to develop products that cater to these demands, including socially conscious funds, active ETFs, and low-cost index funds.

5.4 The Future of the Financial Market

As technology continues to evolve, the financial market is poised for further transformation. The future of the financial market will be shaped by advancements in blockchain, the Internet of Things (IoT), and AI, among other technologies. These advancements hold the potential to drive even greater efficiency, transparency, and accessibility in the financial market.

5.4.1 Blockchain and Distributed Ledger Technology

Blockchain technology has the potential to revolutionize various aspects of the financial market, including transaction settlement, identity verification, and record-keeping. Its decentralized and secure nature can enhance transparency and trust in financial transactions.

5.4.2 Personalization and Customization

The financial market of the future will focus on personalized and customized solutions for investors. AI algorithms and machine learning will enable the development of tailored investment recommendations, portfolio management strategies, and risk assessment models.

5.4.3 Regulatory Considerations

As technology continues to reshape the financial market, regulators will need to adapt and develop frameworks to address emerging challenges. Regulatory bodies will play a crucial role in ensuring investor protection, data privacy, and the fair and transparent operation of the financial market.

5.4.4 Investor Education and Awareness

With the increasing complexity of investment products and the rapid pace of technological advancements, investor education and awareness will become more critical than ever. Investors need to stay informed about new technologies, understand the risks and opportunities they present, and make informed investment decisions.

6. Conclusion

Technology has revolutionized the financial market and transformed the way investors manage their portfolios. The integration of AI, big data, robo-advisory platforms, and e-payment options has enhanced convenience, transparency, and efficiency in mutual fund investments. As technology continues to advance, the financial market of the future will be characterized by personalization, customization, and regulatory considerations. Investors who embrace these technological advancements and stay informed will be well-positioned to navigate the evolving financial landscape and capitalize on new opportunities.

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