Institutional investors

4.39 Over the last five years, mutual funds have become a significant mechanism for financial intermediation in the economy. Table 4.14 summarises the assets managed by the mutual fund industry, which now offers over 450 products to consumers, and manages Rs.1,22,600 crore of assets.

4.40 In absolute terms, the stock of assets managed by mutual funds works out to only nine percent of the assets of the banking industry. This suggests that the role of mutual funds in the economy continues to be small when compared with banks.

4.41 The table suggests that private mutual funds, which are all relatively recent entrants into the industry, now account for over 50 percent of mutual fund assets. This is in contrast with banking, insurance and pension funds, all of which are dominated by the public sector.

4.42 In March 2002, guidelines were issued to enable mutual funds to invest in rated securities in countries with fully convertible currencies. This marks an important milestone, through which mutual funds will be able to deliver better risk/return tradeoffs through international diversification.

4.43 Table 4.15 summarises the experience with FII investment in recent months. This shows a striking turnaround; as compared with a billion dollars that came into India over April to November 2001 as FII equity investments, there has been an inflow of only $49 million in the same period of 2002.

4.44 Institutional investors have not yet been able to utilise the opportunities for better management of risk and return using the equity derivatives market. In December 2002, only 0.77 percent of the derivatives turnover was institutional. There suggests a need to re-examine the policy impediments for institutional participation on the derivatives market.

Table 4.14 : Assets managed by the mutual fund industry (October 2002)

Grouping	Assets under management (Rs. crore)	Share (Percent)
UTI	45,899	37.44
Other public sector MFs	11,037	9.00
Private MFs	65,664	53.56
Total	**1,22,600**	**100.0**

Source: SEBI

4.45 In 2002, important progress was made on the problems of UTI. The question of UTI can be understood as having components: US-64, assured returns schemes, and NAV-based schemes.

4.46 In the case of US-64, investors have been assisted by guarantees announced by government in on 15 July 2001 and on 27 December 2001. UTI has estimated that the shortfall in May 2003 will prove to be Rs.5,522 crore in 31 May 2003, based on certain assumptions including an assumption that the NAV of the scheme would be Rs.6.48.

4.47 There are 21 schemes by UTI which guaranteed certain high rates of return to investors. All these schemes now face a shortfall between the NPV of assets and the NPV of liabilities. The present value of the shortfall is Rs.14,000 crore.

Table 4.15 : Net investment by FIIs

(Million USD)

	Equity	Debt	Total
April-November 2001-02	1075	27	1102
April-November 2002-03	49	-155	-68

Source: SEBI

4.48 Apart from US-64 and the assured return schemes, which are discussed above, the remaining schemes of UTI present no policy difficulties.

4.49 On 28 October 2002, an ordinance was promulgated which repealed the UTI Act, and created two entities, UTI-1 and UTI-2. UTI-2 is an unencumbered mutual fund, with only NAV-based schemes. UTI-1 has US-64 and the assured returns schemes. On 15 January 2003, the handover of UTI-2 to a new set of owners (State Bank of India, Bank of Baroda, Punjab National Bank and Life Insurance Corporation of India) took place.