

ROLE OF DIGITAL TECHNOLOGY IN MUTUAL FUND SECTOR: AN OVERVIEW

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Abstract:

The objective of this study is to assess how India's financial services sector is affected by the significant advancements in financial technologies. The application of financial technologies in the contemporary financial services industries has been the subject of a descriptive research. A thorough assessment of the most recent journals, newspaper articles, government websites, and periodicals has been conducted. We've talked about how financial technologies are affecting India's current financial system as well as the difficulties and risks authorities face in trying to control these new, disruptive technology. We have also talked about future chances, obstacles, and possible threats posed by emerging technology in India's mutual fund sector. The literature analysis indicates that financial technology, or FinTech, have a significant and favorable impact on India's financial services sector. 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. We have also talked about the possible risks, difficulties, and opportunities presented by emerging technology for the Indian mutual fund sector.

1. INTRODUCTION:

The financial services industry's future is being shaped by financial technologies, or FinTech. The financial services sector has grown increasingly digitally literate, extremely productive, and equipped to propel the economy to new heights. Numerous industries have seen significant transformation as a result of disruptive technology. The introduction of new and inventive technologies has brought about the demise of some items and the possibility of a drastic shift in the way the current industry functions, but it has also changed the face of the world. PWC reports that emerging technologies such as robotics, big data, virtual reality, artificial intelligence, and block chains have the potential to significantly disrupt global businesses, including asset management. This study aims to offer a framework for identifying the different problems that digitalization and new technology bring to India's financial markets.

Big data, artificial intelligence, cloud computing, distributed ledger technology and augmented or virtual reality are a few of the cutting edge technologies covered.

This work adds to the body of literature in four distinct ways. First, it discusses the history of mutual funds and provides a brief overview of the Indian mutual fund industry. It also discusses the evolution of the sector from a single mutual fund company to a well-diversified, multimillion dollar market today.

The impact analysis of technology adoption in the Indian mutual fund business is the second contribution. The research from published articles and official sources served as the foundation for this study. It displays the mutual fund industry's trends in India, particularly with the adoption of digital technology.

Thirdly, we have attempted to depict the difficulties that the regulating bodies confront. The consequences of the financial services industry completely altering its conventional mode of operation are beyond the authorities' current level of readiness.

The final portion helps readers grasp the expected future technology advance and how it will affect the financial services sector and its clientele.

We have made an effort to research the operational framework that asset management firms now use. The history of artificial intelligence and machine learning in the financial services sector is covered in this study. Several forms of customer-focused, Artificial intelligence (AI) applications to enhance customer experience; fund house operations; robotics and AI for portfolio management; regulatory and compliance oversight. The mutual fund industry has changed as a result of the adoption of new, contemporary technology. The sector will also be affected by the potential and effects of next-generation technologies in the future.

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2. LITERATURE REVIEW:

Innovative financial technologies are not just the way of the future; they are also consuming the conventional financial industry enterprise. The question is, are we prepared for the rapidly evolving business model, or have we already missed the opportunity to adjust? Financial technologies are advancing at a rapid pace, including roboadvisors, AI, bitcoins, and

crowdfunding decreasing the amount of time the industry partners have to respond to it. As a matter of fact, there are still many more to come forward; it has only just begun. Regulators and industry partners must prepare to meet this challenge and seize the opportunity. Our understanding of financial technologies and their ongoing development was aided by the examination of earlier research projects completed by notable contributors.

Regression analysis was done by Abdullah et al. (2008) on Malaysian mutual fund users' knowledge and adoption of Fintech. Their research revealed no substantial correlation between age and social influence, effort expectancy, performance expectancy, or facilitating factors. The correlation between gender and performance in the mutual fund selection criterion yielded the same outcome. Their research indicated that investors mostly used performance variables while choosing mutual funds. According to one of their findings, people with high educational backgrounds are more likely to use technology for investing in mutual funds and online banking.

According to Alexandra Andhov's (2018) research, financial technology is still in its infancy and has a lot of room to grow. This is because clever algorithms, larger data storage capacities, and computing capacity improvements will all play a major role in future developments. The EU has had difficulty fostering an atmosphere of trust where investors feel free to participate regardless of where they are from. The author makes the suggestion that Fintech might assist the EU in fostering that climate of trust, which has long been a source of concern for the EU.

According to Prasada Rao et al.'s (2018) research, the transparency, decentralization, tamper-resistance, accountability, and privacy of blockchain technology can benefit all parties involved in the mutual fund business. Investor trust will rise with greater openness, which will help boost productivity and reduce paperwork through digitalization.

Fifteen hundred bank customers were polled by Daniel O'Keefe et al. (2016) of KPMG regarding their knowledge of and interest in digital wealth management. Their findings were astounding: only 8 to 15% of investors knew about roboadvisors. However, it was even more shocking to learn that 51.8% of investors knew about intelligent portfolio management and 48% knew about personal advisor services. Additionally, they noted that roboadvisory is becoming more popular among both new and seasoned investors. Their research indicates that by 2020, roboadvisory might be valued at \$2.2 trillion.

In order to examine the effects of different internal and external factors affecting the success of new fintech companies, Teo, Ernie G.S. and Chuen, David Lee Kuo (2015) suggested applying the LASIC (Low Margin, Asset Light, Scalable, Innovative, and Compliance easy) Principles to two of China's successful Financial Technologies firms (Alibaba and M-Pesa).

3. OBJECTIVES OF THE STUDY:

The broad objective of the study is

- To find out the recent trend in mutual fund industry in India
- To study the impact of digital technology in mutual fund sector in India

4. GROWTH OF MUTUAL FUNDS IN INDIA:

In 1963, the Reserve Bank of India and the Indian government took the initiative to form Unit Trust of India (UTI), which marked the beginning of mutual funds in India. The Reserve Bank of India, which served as UTI's administrative and regulatory body, established it by a parliamentary act. Mutual fund Over the last ten or so years, the global industry has experienced steady and unparalleled expansion. The financial services business has met with great acceptance and expanded globally as a result of the adoption and application of new technologies. Investor confidence in the financial markets has improved as a result of enhanced openness and information accessibility. The growth of Assets Under Management (AUM) over the years commencing from the 1st phase till March 2024 of the 4th phase is mentioned in Table 1.

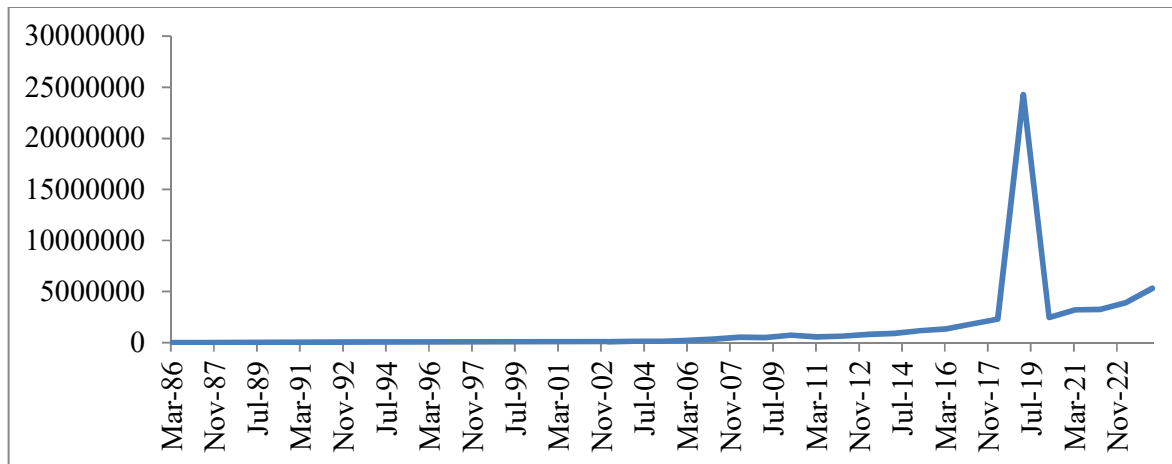
Table 1: Growth of Assets Under Management

Phases	Year	Growth in Rs.(in Crores)
Phase I (1964-1987)	March-1986	25
Phase II (1987-1993)	March-1987	4,564
Phase III (1993-2003)	March-1993	47,733
Phase IV (2003-Present)	Jan-2003	1,21,805
	Feb-2003	87,190
	March-2003	79,464
	March-2004	1,39,616
	March-2005	1,49,600
	March-2006	2,31,862
	March-2007	3,59,097
	March-2008	5,38,508
	March-2009	4,93,285
	March-2010	7,47,525
	March-2011	5,66,545
	March-2012	6,64,792
	March-2013	8,16,657
March-2014	9,05,120	
March-2015	11,88,690	

	March-2016	13,53,443
	March-2017	18,29,584
	March-2018	23,05,212
	March-2019	2,42,84,661
	March-2020	24,70,882.28
	March-2021	32,17,194.64
	March-2022	32,70,295.79
	March-2023	39,42,000.00
	March-2024	53,40,000.00

Source: portal.amfiindia.com/spages/ammar2003 to portal.amfiindia.com/spages/ammar2024

Figure 1: Growth of Assets Under Management



Over the previous three to five years, the contribution of Indian investors to Mutual Fund Asset Under Management (AUM) has increased three times. The monthly contribution to Systematic Investment Plans (SIPs) has reached a record high of Rs. 21,262 crore, and it is anticipated to increase even higher. The elimination of entry loads from mutual funds is another factor contributing to the dramatic increase in contributions to mutual funds. The mutual funds sector experienced a spike in mutual fund AUM and the formation of multiple fund houses. These factors were accompanied by rising earnings and sound economic policies.

Technology is one of the causes of the unexpected increase in mutual fund contributions.

Asset management firms can now extend their reach to locations where they are not physically present thanks to technology. Individuals can now obtain advice, information, and even make mutual fund investments without having to go to the AMC representative offices.

The mutual fund sector has adjusted to the rapidly evolving technological landscape both inside and externally. Additionally, investors have responded well to it.

Investors no longer need to physically interact with any mutual fund industry professionals in order to complete the e-KYC process online.

The regulatory authority of the mutual fund sector, SEBI (Securities Exchange Board of India) has also made the required modifications to the rules in order to properly utilize the new technology entering the market.

5. EFFECT OF TECHNOLOGY ON MUTUAL FUNDS INDUSTRY:

Since AI consistently makes headlines when something new and noteworthy happens, it has become more and more prevalent in the news. The Government and certain individuals are still obsessed with creating artificial intelligence despite Stephen Hawking's warning about the technology.

AI is currently making a name for itself in the sector thanks to its wide range of applications. It has aided the business in being more efficient and reducing errors. Mutual fund companies already utilize it for ECM (Enterprise Content Management). Large-Scale data processing, organization, classification, error checking and duplication of data are all handled by AI.

When paired with intelligence, clever data analysis and interpretation can enable computers to analyze and process enormous amounts of data in a matter of seconds, which can assist fund managers in performing historical stock analysis.

AI is used more intelligently to analyze security and determine the best portfolio with a risk-reward ratio. Additionally, it can be utilized to tailor investors' demands and recommend the best available investment solutions.

The entire investing process is now paperless, effective, and simple thanks to next-generation technologies. It has assisted fund houses in improving the effectiveness of their distribution channels, making it possible to reach previously unreachable locations. The great majority of investors would have access to mutual funds thanks to e-commerce platforms.

Asset management firms are changing due to technology; they are becoming more centralized and recognized than they were in the past.

The future of asset management is currently being redefined by big data, analytics, blockchain technology, mobile, social media, cloud computing, and Fin Tech.

Artificial intelligence (AI) has the ability to minimize inequalities by improving information processing efficiency. AI has the capacity to evaluate vast amounts of data on behalf of investors and generate the most likely recommendations, which could be useful in helping them make investment decisions.

It can lower the total cost of trading for investors and provide the best trading plans for them based on shifting circumstances. AI can be used to generate better recommendations and target particular customer segments.

By estimating risks more appropriately and accurately, artificial intelligence (AI) can also be utilized to control risk. Artificial intelligence (AI) improves risk management by assisting in the anticipation and detection of fraud, suspicious transactions, and cyberattack risk.

Artificial intelligence has the potential to harm financial institutions, as well as the entire financial system. Regulators may find it challenging to keep an eye on and oversee AI investment activity. Again, lack of transparency could cause issues for exchange and authorities.

6. CONCLUSION:

An rising number of businesses throughout the world are embracing AI these days, and asset management firms in the financial sector are among those that have already begun utilizing AI and machine learning. It has resulted in more efficient financial institution operations as well as more efficient financial system and economy as a whole.

Improved risk management of the investment portfolio contributes to more sensible money allocation, lower transaction costs, and faster transaction times.

The mutual fund industry has seen a very encouraging sign of greater investor participation with the adoption of digitization. The financial markets were originally hindered by demonetization, but in 2017, they experienced the largest contributions to the mutual fund asset base in over ten years.

Investors can now make direct investments without the assistance of a distributor or broker.

Soon, an ecommerce platform will further simplify the process for investors to purchase mutual funds. Future asset management firms will benefit from new technologies like blockchain, Roboanalytics and robo advisors which will help them operate more effectively and efficiently.

Distribution channels will employ more cutting-edge technologies to improve productivity and attract investors. Customers can receive individualized advice at their convenience and have access to a plethora of information thanks to technologies like robo-advisory.

Notwithstanding, certain obstacles may arise, which can be addressed by regulators taking a proactive approach to enacting the required modifications in rules to protect investors' interests.

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