

From UTI monopoly and assured returns to SIP boom

How the continuing reforms in the MF space have created an over ₹82 trillion powerhouse



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New Delhi & Mumbai, 5 August

"It was a state monopoly with a government guarantee attached," Dhirendra Kumar, founder of Value Research, says about the mutual fund (MF) industry that existed before the economic liberalisation of 1991.

The Indian MF industry was the stand preserve of state-backed institutions offering assured-return schemes. The Unit Trust of India (UTI) dominated the market for more than two decades before 1991. Later, public-sector institutions such as State Bank of India, Life Insurance Corporation of India, General Insurance Corporation of India, Canara Bank, Punjab National Bank, and Bank of India set up their own MF arms.

"Investors did not choose between fund houses but between government agencies," says Kumar.

Equity investing had not taken root back then. Most Indian investors preferred fixed deposits and valued certainty of return more than market-linked outcomes.

UTI designed products for such investors. Unit Scheme (US)-64 was among the biggest of that period. "Investors perceived US-64 as a slightly better fixed deposit than was safer than stocks and more rewarding than post office schemes," says Kumar.

All of that changed, when the reforms of 1991 transformed the premise on which the Indian economy operated. It created a market environment that made the transformation of MFs possible.

Cut to June 2026, and that ecosystem has evolved into a thriving marketplace that manages assets worth ₹82.2 trillion, with about 105 million active systematic investment plan (SIP) accounts that garnered ₹31,781 crore, according to the Association of Mutual Funds in India (Amfi).

Today's regulated, transparent and market-linked investment ecosystem is the outcome of a steady stream of regulatory reforms, technology adoption that has provided the plumbing for digital access, and the gradual spread of an equity-investing culture across the country.

Reforms triggered changes
One of the big triggers for the overhaul of the stock markets was the Harshad Mehta scam, which came to light in April-May 1992. Mehta and collaborators had artificially inflated stock prices using bank receipts. When the scam came to light, it triggered a big crash in the market and pushed the government to bring in some much needed regulations and to open it up to a broader public to ensure better price discovery.

Around that time, the Securities and Exchange Board of India (Sebi) was given statutory status. After that event, the National Stock Exchange (NSE) was launched by 1994; the National Securities Depository Limited (NSDL) commenced operations in November 1996; and stocks were dematerialised.

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"Physical transfer of shares was a problem for institutional players such as MFs," says Sivasubramanian K N, retired chief investment officer (equity), Franklin Templeton Asset Management. "Sebi's establishment, NSE's creation and dematerialisation of shares were all linked to the reforms that followed the scam," he adds.

Sebi sets the rules
The first set of Sebi MF regulations was notified in 1993. These were revised and replaced by the more comprehensive Sebi (Mutual Funds) Regulations of 1996.

"These regulations established the trust structure, separated the trustee and the asset management company (AMC), and introduced the requirement for a custodian and a minimum net worth for sponsors," says Kumar.

Sebi insisted on the publication of daily net asset value (NAV) and regular portfolio disclosures. "This made MF investments visible and enabled comparison between schemes," says Kumar.

Enter private players
The 1993 Sebi mutual fund regulations allowed private-sector entities to set up MFs. Madras (now Chennai)-based Kotah Pioneer launched India's first private-sector open-ended fund in November 1993.

"Private players introduced professional fund management as a product differentiator," says Kumar.

Early private-sector entrants found it difficult to sell market-linked products. "Selling equity funds was difficult. The main issue was explaining the product," recalls Sivasubramanian. Investors were used to fixed deposits that provided certainty of return. "They now had to understand products that were marketed to-market on a daily basis," he adds.

The first adopters were people who already invested in stocks. "It was only after MFs established five- and 10-year performance history that investors could understand the behaviour of this product," says Sivasubramanian.

Analysts, too, struggled to evaluate fund performance in the early years. NAVs, when available, often appeared in newspapers a day late. Fund houses did not publish portfolios in the early 1990s.

"They lacked proper data infrastructure for NAVs and portfolios in the early 1990s," says Kumar.

A relationship manager at a public-sector undertaking fund once asked Kumar why anyone would want to know what the fund owned. "Independent research separate from the sales chain was not part of the industry's vocabulary then," says Kumar.

Distribution challenge
UTI had a presence even in the hinterland. Private MFs initially concentrated on the metros and a few states in south and west India, where most banking deposits were concentrated.

Convincing banks and other distributors to distribute private fund houses' schemes took time. "Fund performance eventually forced them to take MFs seriously," says Sivasubramanian.

Then, on July 2, 2001, UTI suspended both sales and repurchases of US-64 units for six months to stem relentless redemptions.

The crisis exposed the risks of opaque structures. US-64 did not have an NAV for its units. "Its sale and repurchase prices were determined administratively over the years. These administered prices had no connection with the intrinsic value of the units," says M Damodaran, chairperson, Excellence Enablers, and former chairman, Sebi, UTI and IDBI.

Large institutional investors entered the scheme towards the latter part of the 1980s. "Their participation contributed to volatility and the continuing imbalance," says Damodaran.

The crisis sparked deep concern among unit holders about liquidity, safety and assurance of returns.

UTI split the portfolio of US-64 into one part that became NAV-based and another that could not. The NAV-based part came within Sebi's remit.

"UTI addressed the non-NAV-based portion of US-64 and the monthly income plans (MIPs) by issuing tax-free bonds to holders. The government guarantee did not have to be invoked," says Damodaran, who became chairman of UTI in July 2001 and played a major role in managing the crisis and restructuring the organisation.

No-load response to curb mis-selling
Another big change came when Sebi abolished entry load, the fee paid when buying into an MF, in August 2009 to address the distortion in distribution caused by it.

"Switching from one product to another merely to earn higher commissions is now largely a thing of the past," adds D P Singh, deputy managing director (MD) and joint chief executive officer (CEO), Sebi Mutual Fund.

Then in October 2018, Sebi asked asset management companies (AMCs) to move to a trail-based distributor commission, or a yearly fee, to curb mis-selling.

One change that helped reduce the cost for investors putting in their money directly (without using a distributor) was Sebi's September 2012 circular that created a separate category of direct plans carrying lower expense ratios.

Together, these and similar measures pushed the industry into a high-growth phase from 2014. "By then several funds had accumulated more than two decades of track record," says Navneet Munot, MD and CEO of HDFC AMC. Some other factors helped too: Transparency in disclosures and product communication; technology and digital public infrastructure that enabled onboarding at scale; and investor education.

The demonetisation of currency in 2016 also aided the MF industry's growth by pushing cash savings into the formal banking system.

SIPs become mainstream
Among the big measures that helped boost investor awareness was Amfi's Mutual Funds Sahi Hai campaign, which was launched in March 2017.

In October 2018, Sebi introduced changes to the total expense ratio (TER) to make the cost structure of MFs transparent. The measure aimed to ensure that fund houses passed on the benefits of scale to investors.

Post-Covid growth
By the time the pandemic hit, the reforms had created the conditions for a

big jump in MF investments, and a huge wave of new investors and money that flooded the markets. "Lockdowns left families with extra savings. Low interest rates on traditional investment options pushed younger investors towards MFs," says Chalasani. He adds that the wide-spread use of smartphones, online know-your-customer verification, and

easy-to-use investment apps transformed investing.

Since then, investor risk appetite has risen and the equity culture has spread even to smaller towns. Investors increasingly prefer market-linked financial assets over traditional physical assets such as gold or real estate. "Post-Covid investors view MFs as a core component

of everyday household financial planning," says Chalasani.

Growth has been strong. However, MF penetration in India remains low compared to developed global markets. That is something the industry is looking to change. "Now that the ecosystem is developing, penetration is likely to improve further," says an optimistic Singh.

PHOTO: REUTERS

One of Sebi's far-reaching changes was asking AMCs to publish the daily net asset value, helping investors compare performance between schemes

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Extract of Statement of Standalone Unaudited Financial Results for the Quarter Ended June 30, 2026									
₹ in lakhs except EPS									
Sl. No.	Particulars	Quarter ended			Year ended				
		30.06.2026	31.03.2026	30.06.2025	31.03.2026	31.03.2026	30.06.2025	31.03.2026	31.03.2026
1	Total Income	41,542.62	54,451.09	42,064.69	1,78,482.69	1,78,482.69	1,78,482.69	1,78,482.69	1,78,482.69
2	Net Profit / (Loss) for the period (before Tax, Exceptional and/or Extraordinary Items)	4,054.62	1,176.23	2,916.91	2,536.20	2,536.20	2,536.20	2,536.20	2,536.20
3	Net Profit / (Loss) for the period after tax (after Exceptional and/or Extraordinary Items)	3,031.57	772.47	2,130.54	1,861.67	1,861.67	1,861.67	1,861.67	1,861.67
4	Total Comprehensive Income for the period (Comprising Profit/Loss) for the period and other Comprehensive Income (after tax)	3,586.80	109.31	2,787.32	1,840.24	1,840.24	1,840.24	1,840.24	1,840.24
5	Paid up Equity Share Capital	3,977.00	3,977.00	3,977.00	3,977.00	3,977.00	3,977.00	3,977.00	3,977.00
6	Reserves (excluding Revaluation Reserve)	-	-	-	1,89,506.10	1,89,506.10	1,89,506.10	1,89,506.10	1,89,506.10
7	Earnings Per Share (of Rs. 2/- each) (Not annualized) for continuing operations (Basic and Diluted) (Rs.)	1.52	0.98	1.07	0.94	0.94	0.94	0.94	0.94

Notes: 1. The above financial results were reviewed and recommended by the Audit Committee and approved by the Board of Directors of the Company in their meetings held on August 04, 2026.

(Whole-time Director)