Institutional investors

Growth of the mutual fund industry

4.124 Table 4.12 summarises the growth of the mutual fund industry. Overall assets under management (AUM) grew from Rs.102,831 crore to Rs.143,688 crore in 2004 or 5.1 per cent of GDP. A striking feature of this growth was the success of the private sector, which had an increase from 42.9 per cent of assets to 77.6 per cent of assets in this period.

Table 4.12 : Growth of mutual fund industry

(Rs. crore)

Date	Asset	Private MFs	Private share
April 2002	102,831	44,145	42.9
April 2003	89,238	65,398	73.3
March 2004	143,688	111,492	77.6

The new pension system

4.125 From 1 January 2004 onwards, new recruits into the central government, including post and railways but excluding the armed forces, have been placed into a new defined-contribution pension system. When the system stabilises, it is expected to be opened up for access to the unorganised sector also.

4.126 The new system unbundles the overall problem of pensions into two parts: "accumulation" and "benefits".

4.127 In the working years, participants accumulate pension wealth, and utilise professional pension fund managers. In the case of government employees, government can be seen as 'pre-funding' the future pension through contributions which go into the individual account of each employee.

4.128 The focus in the working years is on asset management, using an NAV-based system. Here, the critical focus is on earning high rates of return in fund management.

4.129 Public infrastructure in the form of a 'central recordkeeping agency' (CRA) is envisaged in order to lower transactions costs, which could be particularly onerous for small value contributions.

4.130 A new regulatory agency, the Pension Fund Regulatory and Development Authority (PFRDA) has been created in order to perform the regulatory and developmental functions of the above elements. As with SEBI and IRDA, PFRDA has been created by an administrative order. Legislative action is required in order to make it statutory.

4.131 PRRDA's activities include contracting for the CRA, choice of fund managers, setting up regulatory requirements for fund management, reaching out into the unorganised sector, establishing linkages between the CRA and government, etc.

4.132 Upon retirement, participants would use part or all of their accumulated assets to purchase an 'annuity' from life insurance companies, in order to obtain the benefit of a monthly pension until death.

4.133 This pension system envisages harnessing many of the strengths of India's financial system. It is expected that existing bank branches (regulated by RBI) and post offices would offer access services, so as to avoid the cost of building up a new branch network. The pension fund managers would be prominent users of the existing asset markets in the country, including the markets for government bonds, corporate bonds, equity and (when international diversification commences) the currency spot and derivatives. The existing life insurance industry (regulated by IRDA) would produce annuities.

4.134 PFRDA would play a synergistic role, coordinating with SEBI, RBI and IRDA in effecting a new leap for India's pension sector. The new pension system is expected to create a new class of large institutional investors, who would participate on all the asset markets.