

Determinants of Growth for Thai Mutual Fund Industry

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Abstract

Thai mutual funds industry has grown drastically and become an alternative channel of savings and investment in the past five years, from 2006 to 2010, particularly as real deposit interest rates remain in negative territory. At present, the country's assets under mutual fund management equal Bt1.704 trillion, or around 37 per cent of total household bank savings. Proportion of equity funds to total assets under management of the industry rose from approximately 10 percent to 15 percent. Fixed income funds play an important role determining industry growth. It is therefore essential that all stakeholders in the capital market, especially investors, understand the nature of the mutual fund industry, both in terms of the variety of products and services, and the real advantages it offers. It is especially important when Thai capital market is approaching more financial liberalization in 2015. Three determinants of mutual funds growth besides funds performance are distribution channel, reputation of parent company, and administrative expenses. Therefore, asset management companies with better distribution channel or better access to clients through a bank's nationwide branches and with more efficient complete financial services from their parent companies leading to more efficient cost management have higher growth opportunities. Possessing the three determinants, a company can grab bigger market shares in both the fixed income fund sector and the equity/stock funds sector through cross-selling, even though it may charge clients comparatively higher fees with a lower rate of return (data compiled in 2008 and June 2010). Thai mutual fund industry is likely to face two major challenges. Firstly, due to limited mutual fund product diversification and slow product development, especially if foreign-owned asset management companies, which focus more on product innovation, lose their competitive edge and ultimately leave the business. Secondly, Thai mutual funds may become too concentrated on simple short-term funds, which benefit from tax privileges relative to bank deposits. However, given the challenge of Thailand's ageing society, which will need savings and investment with high long-term returns, relying on these types of product will not enable us to meet the future burden. Therefore, it may be time for stakeholders in Thai capital market start asking how they can help develop the mutual fund industry to serve Thai investors in a more efficient way.