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Awareness & Attitude towards Mutual Funds in Sangli Region– A Critical Study

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Abstract:

With an aim to enhance mutual fund investments from smaller cities, in the year 2012 SEBI issued a mandate stipulating minimum level of investment from "beyond -15" cities (B-15, tier II and tier III cities). Total contribution of (B-15) cities in total assets under management (AUM) of mutual fund companies in India on 31st December 2014 revealed a disappointing figure of 13%. On this premise a study was conducted to understand awareness and knowledge about mutual funds (MF) amongst residents of Sangli district. A questionnaire was circulated amongst 100 educated individuals to assess the level of penetration of mutual funds, and understand attitude of investors in Sangli region. The influence of demographic variables such as gender, age, educational qualification and profession on the extent of knowledge about mutual funds was assessed with the use of one way ANOVA test. It was concluded that knowledge of mutual funds was independent of educational qualification but was influenced by age and occupation as determining variables. The study pans out that AMCs (asset management companies) should educate investors about mutual funds through regular awareness programs. The findings will guide mutual fund companies to draw out a specific plan and devise strategies to augment investments from B-15 cities.

Keywords: mutual fund, investment, asset under management, asset management company, resource mobilization.

I. INTRODUCTION

Mutual fund is a trust that pools the savings of a number of investors who share a common financial goal and invests them in diversified portfolio in shares, debt securities, money-market securities or a combination of these. Those portfolios are professionally managed on behalf of the unit holders and each investor holds a pro-rata share of the portfolio that is entitled to profits as well as losses. It channelizes the investments of retail investors into stock market so that they can reap the benefits of stock –market investing while mitigating the risk. It also provides choice amongst various schemes depending on the investment objective, risk-appetite, period of investment etc. The option to choose from a plethora of schemes with varied features requires intellect requires intellect and clarity of the financial goal. Investment in financial securities is quite a complex task involving knowledge of various terms, tools, concepts and strategies and hence investment in mutual funds is influenced by profile of the individuals.

Origin of mutual funds goes back to the 18th century when it was first launched in Netherlands and later Mutual funds saw their rebirth in Switzerland and US in 19th century. In India, MF was first launched in the year 1964 by Unit trust of India. Since the year 1993, it was thrown open to private sector players as well and with the entry multiple players, wider choice of fund families was offered to investors. Foreign AMCs such as Templeton set up companies in India through joint ventures. Mutual funds have played major role in financial intermediation, development of capital market and the growth of Indian economy. Presently there are 33 plus AMCs offering varied MF schemes and their total Assets under management(AUM) have ballooned to Rs 14.22 trillion in April 2016 from sheer Rs 0.47 trillion in 1993. The industry has witnessed various phases of fast, moderate and slow growth in the past several years.

Amid depressing global economic environment in 2009 with an aim to give a fillip to Indian MF industry SEBI imposed a ban on charging entry load by mutual fund companies. Despite a positive move by the regulatory body, MF industry In India has grown at a dismal CAGR of 2.4% since 2009. Penetration of mutual funds as indicated by ratio of mutual funds investments to total GDP in considerably low at 10.5% in April'16 in India (AMFI report, 2015-16) compared to 77% in the US and 41% in Europe and 40.3% in Brazil.(ICI,USA, 2102) Segmental analysis of total assets under management (AUM) of fund houses reveals that as on 31st December 2014, only T-15 (top 15) cities accounted for whopping 87% of total assets and B-15 cities contributed only 13% of total AUM. The awfully low level of investment from a large number of districts is a major impediment in the growth of MFs as well as the capital market. The SEBI survey of 2014, too, confirmed that poor penetration of mutual funds in most Indian cities is prime reason behind meager growth of MF industry. Deplorable penetration levels are attributed to factors such as lack of understanding about mutual funds, how they differ from ordinary investments and how they manage to offer superior returns over traditional investments. Approximately a third of all of respondents from tier II Indian cities did not know how and where to invest in mutual funds (Boston Analytics, 2010). To top it , most people remain unaware of basic financial concepts such reward (return) to variability (risk) ratio, asset allocation, benefits of diversification, passive-active investment strategies etc.

Past research indicates that on the demand side low level of financial literacy and cultural attitude favoring traditional savings products are the major roadblocks while lack of adequate distributors and competent manpower are the challenges on supply front.

II. LITERATURE REVIEW

Extensive research has been carried out in the field of mutual funds by researchers' in India and as well as other countries. A brief snapshot of relevant observations and findings is presented in review of the literature. Dr Binod Kumar Singh (2012) conducted a study on investors' attitude towards mutual funds and concluded that majority on investors lack understanding of the function of mutual funds. Dr Sharma and Dr Rao (2014) conducted a study on risk orientation and reported that risk orientation is highly essential amongst investors of mutual funds and risk-appetite increases with age of investors. Shanmugham (2000) contended that economical, sociological and psychological factors control the investment decision. Ramamurthy and Reddy (2005) concluded that the major benefits delivered to the small investors by mutual funds are professional management, diversification of investment, return potential, convenient administration, liquidity, transparency, flexibility, affordability, wide choice and proper regulation. They also studied the trends like entry and exit policies of mutual fund companies, MF schemes related to the real estate, bullion, entry of banking sector into the mutual fund industry, buying and selling of mutual funds online. Syama Sunder (1998) claimed that despite advent of private players and extension of product range, knowledge about mutual funds was unsatisfactory in smaller cities. Dr Vyas (2011) reported that mutual fund ranked fifth as investment preference after gold, fixed deposits, life insurance schemes, post office schemes & PPF and occupation and mode of investment had no correlation. Dr Saini (2011) in his study on mutual fund investors discovered that getting tax benefit is the main objective behind investing in mutual fund. Dr Mehta and Dr Shah (2012) studied the factors that influence buying behavior of mutual funds and investors' reliance on different sources while making an investment decision. Singh (2012) piloted an empirical study of Indian stakeholders in Ranchi region and observed that most of the respondents are confused about the mutual funds and have not formed any attitude towards mutual funds. The study established that some demographic factors like gender, income and level of education have an impact over mutual funds. On the contrary, investor age and occupation do not influence the investor's attitude. The study revealed that mutual funds are perceived to be return potential by its flexibility, transparency and affordability.

Over the past two decades Indian mutual fund industry has evolved to offer schemes with several variants which focus exclusively on one type of asset class and then there are funds which hold securities from different assets. At the same time, several mutual fund schemes have two to three variations on each fund such as growth, monthly dividend, annual dividend etc. Besides offering different schemes for investment, AMCs also offer several investment plans to their customers. Systematic investment plans (SIPs), systematic withdrawal plans (SWPs), systematic transfer plans, triggers, insurance options and many other plans are designed to give a degree of control and flexibility to the investor. While all this is highly beneficial for a well informed investor, all this is highly intimidating to an investor who is barely financially literate and has little time (or energy) to do his/her research before buying a fund. Boggled by all this complexity, the investor routes his savings to lesser complicated fixed deposits and/or physical assets (Halan, 2013). Kandpal and Kavidayal (2013) studied marketing strategies of private and public mutual funds and concluded that marketing strategy has failed to address the psychology and expectations of investors. Marketing strategy of funds is lackluster and has urban bias.

III. NEED FOR THE STUDY

Despite an exhaustive conducted on preference & attitude towards mutual funds investment, on comparison and performance of MF schemes etc, vast majority of Indians especially from semi-urban and rural region are yet unaware of function and benefits of mutual funds. Although fund managers incessantly offer innovative schemes to cater to customers' varied requirements, the hard truth is that a huge population still does not enjoy the fruits of innovations in the organized financial market. On this premise, this study is an humble attempt to gauge the awareness and knowledge of Mutual funds amongst the B-15 cities in India with reference to Sangli region.

IV. OBJECTIVES OF THE STUDY

A study was undertaken with the following objectives :

1. To identify extent of investment in mutual funds amongst the residents of Sangli district.
2. To gauge the level of awareness of mutual funds among the residents of Sangli district
3. To examine the influence of demographic factors such as age and qualification on the financial literacy

Hypothesis

H01: Majority of the people have never invested in the mutual funds.

H02: Age of the respondents does not influence the knowledge of mutual funds

H03: Knowledge about mutual funds and qualification are independent of each other.

H04: Occupation does not influence the knowledge of mutual funds

V. METHODOLOGY

Sampling design: The study is based on convenience sampling. The study was carried out on 100 residents of Sangli district. Male and females of varied demographics- age, income level, profession, and educational qualifications were considered.

Profile of Sangli district : Sangli is one of the B-15 cities of India. It is an urban district place

Tools for Data collection and processing : The present study is based on survey method. It involves collection of primary data with the help of structured questionnaire containing closed ended and open ended questions. The survey was conducted during the period of April and May 2016. Responses were sought by visiting individuals at their home or place of work. Respondents' awareness and extent of knowledge of mutual funds was measured through a set of three basic questions related MF concepts. Open ended questions were framed for deriving suggestions. Sample has been classified on the basis of age, qualifications and profession. Responses have been collected from male respondents only on the assumption that they are prime bread earners and hence primary decision makers as regards the investments of the family. In order to explore influence of demographic variables on knowledge of mutual funds, two-way ANOVA test was applied for each demographic category.

(1) Age- Wise: The age of the respondents have been classified into five groups (a) 20-30 years (b) 31-40 years (c) 41 to 50 years and (d) above 50 years
(2) Qualification wise: Respondents have been classified into three groups based on qualifications as (a) undergraduate (b) graduate (c) post-graduate
(3) Occupation wise: Respondents have been classified as (a) business (b) service

The secondary data was collected from books and article publishes in online and print journals and magazines.

VI. ANALYSIS & RESULTS

Test of Hypothesis:

H01: Out of 100 respondents of varied age-group, educational qualifications, profession and income levels, 69, more than 50% of the selected sample size, have never invested in mutual funds. Hence hypothesis HO1 is accepted.

Respondents who have never invested in mutual funds	Respondents who have presently hold investments in MF or have invested in the past	Total
69	31	100

Following table indicates demographic classification of male respondents from whom the data has been collected.

Age-group	**Nos**	**Qualifications**	**Nos**	**Profession**	**Nos**
20-30 yrs	30	PG	14	Service	57
31-40 yrs	38	Graduate	46	Business	43
41-50 yrs	14	Under-graduate	40		
51 yrs & above	8				
Total	**100**		**100**		**100**

H02:

Table 1 is the statement of association between individual's age and knowledge about mutual funds

Table 1 : One-Way ANOVA Table

	Sum of Squares	Degree of Freedom	Mean Squares	F-ratio
Between groups	268.000	3	89.333	74.79
Within groups	114.667	96	1.194	
Significant value : 2.68				

Inference:

Table 1 communicates the result of ANOVA test applied and calculated value of "F" test. The calculated value of "F" is more than the tabulated value at 5% level of significance for v1= 3 and v2=96 degrees of freedom. Hence the null hypothesis is rejected and alternative hypothesis is accepted. It is understood that knowledge level about mutual funds is influenced by the age of an individual.

H03:

Table 2 is the statement of association between individual's educational qualifications and knowledge about mutual funds

Table 2 : One-Way ANOVA Table

	Sum of Squares	Degree of Freedom	Mean Squares	F-ratio
Between groups	11.111	2	5.556	2.794
Within groups	192.889	97	1.989	
Significant value: 3.07				

Inference:

Table 2 communicates the result of ANOVA test applied and calculated value of “F” test. The calculated value of “F” is less than the tabulated value at 5% level of significance for v1= 2 and v2=96 degrees of freedom. Hence the null hypothesis is accepted and alternative hypothesis is rejected. It is understood that knowledge level about mutual funds is independent of educational qualification of an individual.

Table 3 is the statement of association between individual’s profession and knowledge about mutual funds

Table 3 :One-Way ANOVA Table

	Sum of Squares	Degree of Freedom	Mean Squares	F-ratio
Between groups	32.667	1	32.667	26.098
Within groups	122.667	98	1.252	
Significant value: 3.92				

Inference:

Table 3 communicates the result of ANOVA test applied and calculated value of “F” test. The calculated value of “F” is more than the tabulated value at 5% level of significance for v1= 2 and v2=96 degrees of freedom. Hence the null hypothesis is rejected and alternative hypothesis is accepted. It is understood that knowledge level about mutual funds is influenced by the profession of an individual.

VII. FINDINGS

1. Most respondents hold investment in FDs, gold and insurance. They commented that they are not happy with the returns from FDs. Most people do not invest in shares due to risk associated with the equity markets indicative of an underlying potential for mutual funds as an investment avenue amongst the sample in Sangli district.
2. During preliminary discussion with female respondents it was discovered that most women were involved in investment decision for the family and hence as such were not interested in mutual funds. In order to maintain fairness in the research the survey was administered only on male respondents.
3. Only 25% of the respondents were fully aware about the concepts, terminologies and differenet types of MF schemes. Few respondents shared that low levels of disposable income is accountable for low awareness about mutual funds. Trailing the cash outflow for priority investments such as payment of insurance premium and moderate savings in bank account most people are not left with any significant amount of funds to invest in mutual funds. Hence they are either unaware of MF terminologies or possess partial knowledge about various schemes.
4. Many respondents revealed about the state of confusion in their minds owing to availability of plenty of schemes and their variants and hence decided to stay away from mutual funds.
5. Over the years MF industry has evolved and now offered several schemes and variation in asset class. The irony of an evolved mutual fund industry is the scheme variants serve to intimidate rather than inform new investor.
6. Most respondents who had invested in mutual funds during the initial period post the privatization of MF sector have had bitter experience of poorer returns due to charge on entry load. It appears that in in B-15 cities, investors are not completely updated about the recent development such as abolition of entry load-leading to thin interest in mutual funds.
7. Respondents were acquainted with mutual funds through banks, consultants, advertisements, peers and friends. Maximum number of respondents was updated about mutual funds through banks. It was realized that bankers play a significant role in enlightening the investors about MF schemes with an aim to generate investments in banks’ MF schemes.

VIII. CONCLUSION

This confluence of ignorance, risk-aversion and mutual fund complexity are the challenges that fund houses in India will have to overcome to enhance retail participation from B-15 cities. Prospective investors can be encouraged to explore beyond the traditional avenues of investment through sensitization and education. Distribution channels will play a major role in deepening MF penetration. Besides, enhanced financial literacy can trigger demand for mutual funds. Mutual fund houses need to deploy technology enabled low cost solution to surpass the entry barrier of uneconomical distribution costs. A few simpler schemes should be designed to cater to the population from smaller cities. Campaigns should be tailored to increase the visibility of debt funds which generally tend to be safer than equity funds. The study concluded that the extent of awareness & knowledge of mutual funds is influenced by certain demographic factors such as age and occupation however, it is independent of educational qualifications. Offering attractive commission for distribution agents and empowering consultants with professional training and promotions through collaboration with regional co-operative banks, community centers, educational institutions are effective strategies for widening the reach.

IX. LIMITATIONS

The study was confined to small sample of investors from Sangli district. Under convenient sampling method respondents who were easily accessible were approached. Hence sample may not be representative of the whole population. Further, the study is applicable at a specific period and may not be applicable in future. The study, conducted in Sangli district may be regionally biased. While studying the impact of demographic factors on mutual fund awareness, influence of income group could not be examined as most respondents hesitated to disclose their annual earnings. Present study focused on the awareness of mutual funds amongst the respondents and further research can be undertaken in investigating investment preferences of investors and determinants of investment decisions.

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