A Study on Investment Decision of Investors With Reference to Penetration of Mutual Funds in India

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Abstract
The Indian mutual fund industry is one of the fastest growing and most competitive segments of the financial sector. The extent of under-penetration in the market is a sore point with the financial services industry, with a large amount of savings being channelized into fixed deposits, gold and real estate rather than the capital markets. The mutual fund industry is yet to spread its reach beyond Tier I cities. The top fifteen cities contribute to 85% of the pie, with the remaining 15% distributed among other cities. The study seeks to determine the impact of decision making of investors on current situation of mutual fund industry.

I. Introduction
The mutual fund industry in India began in 1963 with the formation of the Unit Trust of India (UTI) as an initiative of the Government of India and Reserve Bank of India. Much later, in 1987, SBI Mutual Fund became the first non-UTI mutual fund in India. With the entry of private sector funds in 1993, a new era started in the Indian mutual fund industry, giving the Indian investors a wider choice of fund families. Also, 1993 was the year in which the first Mutual Fund Regulations came into being, under which all mutual funds, except UTI were to be registered and governed. The erstwhile Kothari Pioneer (now merged with Franklin Templeton) was the first private sector mutual fund registered in July 1993. The 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised Mutual Fund Regulations in 1996. The industry now functions under the SEBI (Mutual Fund) Regulations 1996. The number of mutual fund houses went on increasing, with many foreign mutual funds setting up funds in India and also the industry witnessed several mergers and acquisitions. In February 2003, following the repeal of the Unit Trust of India Act 1963 UTI was bifurcated into two separate entities. One is the Specified Undertaking of the Unit Trust of India with assets under management of Rs. 29,835 crores as at the end of January 2003, representing broadly, the assets of US 64 scheme, assured return and certain other schemes. Specified

Undertaking of Unit Trust of India, functioning under an administrator and under the rules framed by Government of India and does not come under the purview of the Mutual Fund Regulations.The second is the UTI Mutual Fund, sponsored by SBI, PNB, BOB and LIC. It is registered with SEBI and functions under the Mutual Fund Regulations (AMFI, 2015). As the industry expanded, a non-profit organization, the Association of Mutual Funds in India (AMFI), was established on 1995. Its objective is to promote healthy and ethical marketing practices in the Indian mutual fund Industry. SEBI has made AMFI certification mandatory for all those engaged in selling or marketing mutual fund products (Sankaran, 2012). Currently there are around 45 mutual fund organizations in India together handling assets worth Rs 11 Trillion (AMFI, 2015). Today, Indian mutual fund industry has opened up many exciting investment opportunities for investors.

II. Current Scenario of Mutual Funds Industry in India

Indian mutual fund industry finds itself in an economic landscape which has undergone rapid changes over the past three years. The industry achieved a high mark when it doubled its Asset Under Management (AUM) from Rs. 3.6 trillion in FY2007 to Rs. 6.13 trillion in FY2010 – clocking an impressive growth rate of 16.2% per year. Mutual Fund AUM since 2011 has shown tacit growth. Current average AUM as on March 2015 is Rs 11.94 Trillion (AMFI, 2014).

Nandy P (2013) in her research work observed that 50 percent of Indian household savings find their way into bank deposits, followed by insurance (20 per cent), pension funds (15 percent), and the rest (15 percent) is shared by various market-linked instruments like shares, debentures, mutual funds and others. Such low participation in market linked instruments can be due to low financial knowledge and selective penetration of market linked products like mutual funds. Penetration of mutual funds in India is (as measured by the AUMs/GDP ratio) at 4.7% as compared to 77% in the US, 41.1% in Europe, and 33.6% in the UK (Nandy Pratyusha, 2013).

Also the penetration is very much concentrated towards very few cities in India. The mutual fund industry is yet to spread its reach beyond top five cities which contribute to 74% of the pie, with remaining 26% distributed among other cities (AMFI, 2014). To see the penetration level researcher has analysed data of average AUM of top 15 locations, along with population figures (Appendix-Table No 1).

Per person contribution in AUM was calculated to check the reach of mutual funds. Average AUM figure was divided by population of respective cities to arrive at Per Person Contribution (PPC) in AUM figure. If we analyze the data we find some interesting facts.

1. It was found that top 15 cities constitute 85.55% of total AUM and rest of India contributes only 14.45%.
2. It was observed that PPC of top 5 cities is quite healthy. PPC of Panjim is quite high although population is low.
3. There is huge disparity if we compare population and AUM on relative basis. Pune's population is 2.3 times of Baroda but AUM is almost 5 times than that of it.
4. Contribution from top 5 cities is 71.91% which suggest lack of penetration and participation which is heavily tilted towards Metros.
5. Population of Hyderabad is more than Pune and Ahmedabad but AUM is half of these cities.
6. Mumbai and Delhi have exceptional participation in comparison to other metros.
7. All top 15 cities have literacy rate of 83% and above.
8. There is concentration of AUM in few cities and thereby reflects on the need to break new grounds and bring new investors from tier II and III cities in the net.

III. Literature Review

A large number of studies on the factors influencing investment decisions have been carried out, in India and other countries. Brief reviews of the following research works reveal the significant aspects of decision making of investors for capital market products like mutual funds.

Studies on factors influencing investment decisions in Mutual Funds in India

Rakesh & Srinivas (2013) Conducted study in North Coastal Region of state of Andhra Pradesh to know the factors which motivates an investor in taking decision for investment in mutual funds. A sample of 400 Investors was collected, from the selected mutual fund companies among three regions, Srikakulam, Vizianagaram, and Visakhapatnam. The sample covers all the levels of the investors. Study found that age, income, information and orientation of education have a significant role in determining the investment style of an investor for mutual funds investment. Study concluded that investors less than 35 years are more willing to invest in mutual funds as they prefer to take more risk to yield more return.

Dr. Binod Kumar Singh (2012) has conducted study in Ranchi, India and observed that most of the respondents had lack of awareness about mutual funds. Moreover, as far as the demographic factors are concerned, gender, income and level of education have significantly influenced the investor's decision towards mutual funds. On the other hand the other two demographic factors like age and occupation have not been found influencing the attitude of investors towards mutual funds. As far as the benefits provided by mutual funds are concerned, return potential and liquidity have been perceived to be most attractive by the investors followed by flexibility, transparency and affordability.

Sharma N (2012) attempt to investigate the reasons that are responsible for lesser recognition of mutual fund in the state of Punjab, as a prime investment option. Study found that variables such as returns from investment followed by favourable rating given to scheme is considered to be most significant aspect which influence the decision making of investors. Other variables such as safety feature, disclosure, charges, reputation of AMCs, and promptness in services also impact investment decision making.

Jain and Mandot (2012) while studying the impact of demographic factors on investment decision of investors in Rajasthan, observed the relationship between demographic factors and the level of risk taking ability of investors. Study concluded that various demographic factors like age, marital status, gender, city, income level, market knowledge, occupations and qualifications have a major impact on investment decision of investors. This study further reveals that there is a negative correlation between marital status, gender, age, educational qualification and occupation of the investors; also there is a positive correlation between cities, income level and knowledge of the investors.

Walia and Kiran (2009) studied investor's risk and return perception towards mutual funds in State of Punjab. The study examined investor's perception towards risk and returns from mutual funds in comparison to other financial avenues, transparency and disclosure practices. The study investigated problems of investors encountered due to unprofessional services of mutual funds. The study found that majority of individual investors doesn't consider mutual funds as highly risky investment. The study also reported that significant relationship exists between income level of investors and their perception for investment returns from mutual funds investment.

Sultana and Pardhasadhi (2012) investigated factors influencing retail investor's decision making and behaviour in share market. Study was conducted in Hyderabad India. Ten factors were identified such as individual eccentricity, wealth maximisation, risk minimisation, brand perception, social responsibility, financial expectation, accounting information, government and media, economic expectation and recommendation from advisors which play very significant role in decision making of investors for investment in share market.

Chakrabarti R. et al (2013) conducted research on mutual fund penetration in India and submitted to SEBI. It was observed that mutual fund presence in the country is heavily skewed in the favour of top 60 districts of India. Even within the 60 districts, a lion's share of the mutual fund presence originates from Mumbai. This is primarily due to the fact that Mumbai houses the headquarters (or the financial headquarters) of most of the large companies, thereby getting a bulk of investments through the non-retail or institutional avenues. If the non-retail customers are taken out, Mumbai starts looking like the other larger metros of the country.

International studies on factors influencing investment decisions in Mutual Funds

Bashir et al (2013) conducted a study that aims at identifying the factors that influence the Pakistan's individual investor investment decision. He studied thirty four items under five categories of variables that influence the individual investment decision making behaviour. The items studied were self-image/firm image, neutral information, accounting information, personal financial needs and advocate recommendations. Out of the total 34 items the six most influencing items which belonged to the self-image/firm's image and accounting information like dividend paid, reputation of firm, feelings for a firm's products and services, speculative attitude, customer care, and firm's status in industry. On the other side, factors that were found to be least influencing in the order of importance were friend or co-worker recommendations, opinions of the firm's majority stockholder, recent price movement in the firm's stock, religious reason, family member opinion and broker recommendations.

Hayat and Arshad (2012) explored the factors that investors in Pakistan value while making investment decisions regarding mutual funds and which affect their behaviour. Major observations were that investor age group and cities have an impact on fund selection schemes but income, education level and occupation has no effect. Attributes like past performance of fund, reputation of company, withdrawal facility, company services towards investor have greater impact on decision making. Image conscious investors are more inclined towards sponsor related services than professional investors. This study observed that despite traditional factors (risk & return) others factors also affect investor decisions making.

Aregbeyen and Mbadiugha (2011) identified a set of 20 factors cutting across social, economic, psychological, cultural issues that could influence investment decisions in shares of quoted companies in Nigeria. Study identified the factors that have influenced the investment decisions of the respondents that are financially secure through share investment, future financial security, recommendations by reputed and trusted stock brokers, management of the company, awareness of the investor, composition of board of directors of companies, recent financial performance of the company, ownership structure of the company, reputable predictions of future increment in share value and bonus payments in order of mentioning. The study concluded that investment decisions in shares are influenced jointly by economic, social, cultural and psychological factors.

Hussain and Nasrin (2012) in a study conducted in Bangladesh found that the eight most important principal factors influencing retail investors for mutual fund investments are company specific attributes/reputation, net asset value, accounting information, trading opportunity, publicity, ownership structure, influence of people and personal finance needs.

Rashid and Nishat (2009) found that in Bangladesh, the most influencing factors on investor's decisions for investment in share market are efficiency of the company, inflation rate, easy and quick transactions, transaction cost, access to the company, industry information, and quality of information and prior knowledge of securities.

Noel Capon (1994) in a study on affluent investors and mutual fund purchase conducted in New York USA found that apart from risk and return other factors also effect on mutual fund scheme selection, such as past performance, management fee, amount of sales charges, reputation of fund family, recommendation from magazine and newsletter and clarity of accounting statements. Investor showed different behavioural trait and they prefer different factors while selecting fund because of different demographic background they come from.

Wilcox (2002) conducted research in Virginia USA on investor's preferences for stock mutual funds. Analysis showed that investors weighted past performance more than fee structure. The wealthier and the knowledgeable investors are more biased towards load while selecting the mutual funds. There are other factors that affect decision making, but investors make cognitive errors while selecting funds. It was also observed that investors who are highly educated and have greater financial knowledge made poor decision than their less financially savvy counterparts in selecting mutual funds.

Probable reasons for low participation in Mutual Funds beyond top 15 cities

Low levels of financial literacy, cultural attitude towards savings can be one of the probable issues on the demand front. The biggest challenge that AMC and companies face with regard to engaging investors is the low level of financial literacy among Indian consumers, which leads the average investor to view options like mutual funds with suspicion and caution (PWC, 2013). Investors perceive mutual funds as risky investments and tend to invest their savings in tangible assets such as gold, jewellery, real estate or fixed deposits in banks. There is low supply of mutual funds from AMCs beyond top 15 cities. Mutual fund houses are not doing enough in terms of expanding their distribution network as 89.7 per cent of all the distribution cost by AMCs is incurred in the top 15 cities and their corresponding districts, leaving very little for the rest of the country. (Chakrabarti R. et al , 2013) Mutual fund companies have opened their offices in limited number of cities which also hampers penetration of MF products, also lack of quality manpower in these areas restricting their expansion plans. (PWC, 2013) Know Your Customer (KYC) requirements which is not required in case of real estate or gold, mandates registration of investors compulsory is also keeping many retail investors away from investing in mutual funds. It is easy for retail customers to buy gold from traditional Sarafa market without indulging in complex formalities. Also many retail customers from small cities and rural area don't have PAN number which is mandatory for investing in MFs. In many cases they don't even have valid identification and address proof which is basic requirement for KYC. Restrictions on cash transaction can also be the likely reason for low participation. Low commission structure post regulatory changes since August 2009 have kept away many distributors from MF sales also numbers of active agents have gone down drastically. Low commissions could also be a reason for the difficulty in finding talent.

IV. Suggestions

MFs need to utilize the banking channels more, as they are underutilised, also micro finance institutions can be roped to increase rural footprint.

The new cadre of distributors such as postal agents, retired officials and school teachers, etc will likely rake in inflows from smaller towns and cities. This cadre of distributors will be crucial in mobilising the savings of smaller towns and directing these savings towards mutual fund investments.

AMCs must organise investor education programme which has already been initiated by AMFI and SEBI, but that should cover every district in order to reap long-term benefits. Aim of these programmes should be to educate the customers and make them aware of mutual funds as an investment vehicle.

Use of technology can prove to be a game changer. There is immense scope for the unprecedented growth of MF industry and this can be rooted back to innovative and efficient use of technology. With increasing competition in this space, it is imperative that AMCs are prepared for investment in technology to both widen customer base as well as operate efficiently. To overcome operational challenges, measures need to be taken to improve the existing infrastructure and to bring in more efficiency while increasing the scale of operations. This is not possible without the back-up of a good technology mix.

Mutual fund products need to be simplified if they have be sold to the masses through a public sector bank channel. The product needs to mimic a fixed deposit, and provide a predictable income. Also, these products needs to be solution oriented. Commission structure should be in parity with other financial products like life insurance, post office saving, fixed deposit etc.

V. Conclusion

Mutual fund industry manifests huge opportunity for growth and further penetration, and this can be achieved over time, with support from technology. The key lies in strengthening distribution networks and enhancing levels of investor education to increase presence in rural areas. In terms of opportunity, the infrastructure debt market has become very attractive, luring investors to invest in this space. Also, it is critical for the industry at this point to assess and capitalise the value that pension products bring to the growth of the mutual fund industry. Lastly, it may perhaps be useful if the mutual fund industry emulates some best practices from other industries and sectors to transit to the next level of growth.

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Appendix

Table No.1: Analysis of Average AUM

Per Person Contribution (PPC) in AUM					
City	**Percentage of AUM**	**Avg AUM as on March 2015 in crores**	**Population based on census 2011**	**Per person Penetration in Rs**	**Literacy Rate**
MUMBAI	42.12	**503238**	184,14,288	**273287**	**90**
DELHI	14.6	**174437**	163,14,838	**106919**	**87**
BANGALORE	6.04	**72164**	84,99,399	**84905**	**89**
KOLKATA	4.66	**55676**	141,12,536	**39452**	**87**
CHENNAI	4.49	**53645**	86,96,010	**61690**	**90**
Total of Top 5	**71.91**	**859161**			
PUNE	3.82	**45640**	50,49,968	**90377**	91
AHMEDABAD	3.52	**42056**	63,52,254	**66206**	89
HYDERABAD	1.93	**23059**	77,49,334	**29756**	83
JAIPUR	0.81	**9678**	30,73,350	**31489**	84
BARODA	0.73	**8722**	18,17,191	**47996**	92
SURAT	0.61	**7288**	1,14,405	**637045**	89
KANPUR	0.6	**7169**	29,20,067	**24550**	84
LUCKNOW	0.56	**6691**	29,01,474	**23060**	85
PANAJI	0.54	**6452**	9,01,968	**71530**	90
CHANDIGARH	0.52	**6213**	10,25,682	**60573**	87
Next 10 Cities	**13.64**	**162967**			
Total of Top 15 Cities	**85.55**	**1022128**			
Rest Of India	**14.45**	**172645**			
Total	**100**	**1194773**			

Source:
* AMFI India
** Census India
*** Census India