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# PREFERENCE TOWARDS BANK SPONSORED & NON-BANK SPONSORED MUTUAL FUNDS – AN EMPIRICAL STUDY OF INVESTORS OF ANDHRA PRADESH

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## ABSTRACT

*Indian mutual fund industry is in its growth phase and possesses a tremendous scope for development. There are some crucial issues which need to be investigated. First and foremost, the performance of mutual funds in terms of their efficiency with their set of input and output should be checked. Also, the impact of attributes on the performance of mutual funds should be explored. Further, the perception of investors towards mutual funds and other investment options should be studied. This will answer the question, 'where the mutual funds stand with respect to other investment options and due to which factors they adopt this position'.*

*One more research issue to explore is various steps or measures to be taken by the mutual fund companies and policy makers so that investors might be motivated towards mutual fund investment. In this way, the present study will be of vital importance as it might help to understand why an investor invests in a particular security and his likely reaction to the uncertainty in investing while still satisfying the individual preferences. Investors with positive perception and attitude will continue to invest in a particular investment option while the one with negative perception will discontinue the investment. Therefore, through this study, mutual fund companies and policy makers would be benefited by knowing the needs, attitude, perception, knowledge and awareness of investors about mutual funds individually and with respect to other investment options. Also it would help mutual fund companies, investors, researchers and policy makers to get an idea of the performance of mutual funds in India.*

**KEYWORDS:**
*Mutual Funds, Bank & Non-Bank Sponsored Mutual Funds, Individual preferences.*

## 1. INTRODUCTION

There are many investment avenues available in the financial market for an investor. Investors can invest in bank deposits, corporate debentures and bonds, post office saving schemes etc. where, there is low risk together with low return. They may invest in stock of companies where the risk is high and sometimes the returns are also proportionately high. For retail investors, who do not have the time and expertise to analyze and invest in stock, Mutual Funds is a viable investment alternative. This is because Mutual Funds provide the benefit of cheap access to expensive stocks. In India, the mutual fund industry has been in existence since 1963. Mutual fund raises money by selling stakes of the fund to the public, much like any other type of company that can sell stock itself to the public. It then takes the money which receives from the sale of its stakes (along with any money made from previous investments) and uses it to purchase various investment vehicles, such as stocks, bonds and money market instruments. In turn, the public had given money to the mutual fund when purchasing stakes in its underlying schemes. Each unit of these schemes reflects the share of an investor in the respective fund and its appreciation, is judged by the Net Asset Value (NAV) of the scheme.

The NAV is directly linked to the bullish and bearish trends of the markets as the pooled money is invested either in equity shares or in debentures or treasury bills. Today there are many investment options available to investors. Some of them include bank deposits, bonds, stocks, mutual fund investment and corporate debentures. Investors invest money in banks, bonds and corporate debentures where the risk is low. On the contrary, stocks of companies have high risk but the returns are also proportionately high. The recent trends since last year clearly suggest that the average investors have lost money in equities. People have now started opting for portfolio managers who have the expertise in stock markets. There are many institutions in India which provide wealth management services. They influence the price of the securities, the volume traded and various other financial operations in actual practice. These "expectations" of investors are influenced by their "perception" and humans generally relate perception to action. The beliefs and actions of many investors are influenced by the dissonance effect and endowment effect. A study on the investors' perception towards investment in mutual funds is an attempt to evaluate the behavioural aspects of fund selection techniques of individual investors and also to assess the conceptual awareness of mutual funds during the period.

The focus of this research is to study the perception of investors towards bank and non-bank related mutual fund schemes residing in urban, semi-urban and rural areas of Andhra Pradesh. The study is undertaken to measure the effectiveness of the factors driving an individual's decision to invest in various mutual funds schemes. For this purpose, an exploratory research has been undertaken, by conducting a cross sectional data analysis to identify the retail investors' perception, investment habits, demographic and psychographic profiles which play a significant role in investing in mutual funds. This is done to describe various aspects of retail investors' perception, investment habits, demographic and psychographic profiles that play a significant role during the purchase of mutual fund units. The descriptive and exploratory research will complement each other to provide a better picture of investors' perception about mutual funds schemes. These will also depict the parameter and which influences customers' decision to invest in ten most prominent investment options as:

a) Fixed Deposits in Banks and Indian Post Office
b) Insurance Schemes
c) Public Provident Funds
d) Debentures
e) Equity
f) Mutual Fund
g) Bullion
h) Real Estate
i) Postal Schemes
j) Others, like investment in derivatives and commodities

## 2. REVIEW OF LITERATURE

Deepak Agarwal (2011) expressed that mutual fund adds to globalization of money related markets and is one among the principle hotspots for capital development in rising economies. He assessed the valuing system of Indian mutual fund sector, information at both the fund managers and investor levels. There has been extraordinary development in the mutual fund sector in India, drawing in expansive investments from household and foreign investors. Huge increment in the quantity of AMCs giving adequate service to the investors in safety aspects, arbitrage, hedging, the constrained risk with preferable returns over long term plans which have brought about more investors into the mutual fund sector. Yadav J.S. and Yadav O.S. (2012) in their study entitled "The Indian Stock Market: A Comparative Study of Mutual Funds and Foreign Institutional Investors" investigates the correlation between mutual funds and Foreign Institutional Investors (FIIs). It was discovered that however India is an attractive destination for the Foreign Institutional Investors, investments made by the mutual funds were more noteworthy than venture made by FIIs'. Amid the recession, mutual fund industry in India has assumed an imperative part in pushing the economy upward while FIIs' pulled back their investments, demonstrating the significance of MFs' in Indian economy. Alekhya P (2012) embraced the research to assess the near execution of private and public sector mutual fund plans. The study concentrated on the execution of mutual fund equity schemes for recent years from 2009 to 2011. Funds were positioned by Sharpes, Treynors and Jensons performance measure. Narasimhan (2013) had made an endeavor to study on "Mutual Funds: A Change in Indian Investment Perspective". He narrated that mutual funds have another 'mantra' for Indian investors. Mutual funds assume a prevalent part in comparison with other investment avenues. There has been a gigantic move from customary investment options like N.S.C. also; P.P.F. and so on to mutual funds and this pattern is quickly expanding step by step. He reasoned that mutual funds assume an imperative part in supporting the capital market, which is very fundamental for supporting a developing economy like India and furthermore assumes a main part in the improvement of secondary securities market.

## 3. RESEARCH GAP

This research had reviewed more than 100 studies related in the field of mutual funds. But most of the reviews are based on the performance of the mutual funds and also few studies on investors' perception towards public and private sector mutual fund companies. No one of the research is related to the investors' perceptions towards bank and non-bank sponsored mutual funds. After 2005, the mutual fund companies are increased rapidly and also increased the number of investors. Also, many banks have entered into the field of selling mutual fund schemes. The asset management companies shall play an important role in fund design, portfolio management and profit generation. Thus, the effectiveness of asset management companies shall be the most perceived factor for retail investors and these are now management by both banks and non-banks which are highly specialized in asset management. All these research at the international level and national level shows that still there are ambiguous areas in a mutual fund. There are no universally applicable techniques and hence, the researcher aimed at making an earnest attempt in analyzing the Investors Perceptions towards bank and non-bank sponsored mutual fund companies in the state of residual Andhra Pradesh.

## 4. OBJECTIVES OF THE STUDY

1. To ascertain the investors' perception towards different investment schemes vis-à-vis Mutual Fund Schemes.
2. To analyse the level of satisfaction among investors on various attributes of mutual funds.
3. To identify the factors affecting investors' perception and the choice of bank and non-bank related mutual funds.
4. To study the problems encountered by the mutual fund investors and suggest significant solutions, if any, to the mutual fund companies.

## 5. HYPOTHESES OF THE STUDY

$H_{01}$: Satisfaction with respect to benefits, services, terms & conditions and performance of mutual fund is not significantly different between the bank and non-bank sponsored investors.

$H_{02}$: There exists no significant difference between the bank and non-bank sponsored investors with respect to the problems faced with mutual fund investment

## 6. METHODOLOGY & MEASUREMENT

The present study is aimed at measuring the perception of individual investors towards mutual fund schemes offered by bank and non-bank sponsored mutual fund companies in India. For this purpose the researcher has collected first hand information from 657 sample respondents located in the state of Andhra Pradesh. A well structured questionnaire was prepared and pretested before collecting the actual data. The questions were carefully framed by employing closed-ended and open-ended questions and Likert's five point scaling technique was used. The data thus collected were arranged systematically and simple as well as cross tables were formed. The study centers on the main dependent variables i.e., "perception of individual investors towards mutual fund schemes". Appropriate independent variables are also carefully chosen to analyse the relationship between the independent variables and dependent variables. For analyzing the collected primary data suitable statistical tools like percentage analysis, mean, ranges, standard deviation, two way analysis, chi-square test were employed. In addition, various non-parametric tests (to test the hypotheses) such as Wilcoxon two-sample test, Kolmogorov-Smirnov test, ANOVA and factor analysis were employed with the help of SAS 9.0 version software. Initially descriptive tests have been employed and then factor analysis and validity tests were conducted on the independent variables to test the consistency and then for the residual variables (factors) hypotheses testing was conducted. Based on the findings a few suggestions have been recommended.

## 7. RESULTS

**Table – 1: Bank and Non-Bank sponsored Mutual Fund Company Investors' opinion on Benefits Offered by Mutual Fund Companies**

| Benefits | Bank Sponsored Mutual Fund Company (n=195) | Non-Bank Sponsored Mutual Fund Company (n=462) | Total (N=657) |
|---|---|---|---|
| Diversification and Innovation | 3.48 | 3.96 | 3.82 |
| Tax and risk coverage benefit | 3.79 | 4.01 | 3.94 |
| Safety and repurchase option | 3.64 | 3.99 | 3.89 |
| **TOTAL** | 3.64 | 3.99 | 3.88 |

The above table 1 provides the opinion of the respondents investing in bank and non-bank sponsored mutual fund companies on the benefits offered to the investors. It can be found from the table that overall respondents are more satisfied with the benefits offered by both types of mutual fund companies. Among these two companies, respondents are more favored towards non-bank sponsored mutual fund companies than the bank sponsored Mutual Fund Company. Among the three benefits extracted after the factor analysis, all the respondents are having level of perception towards the benefit, "Tax and risk coverage benefit" than the other two benefits.

**Table – 2: Bank and Non-Bank sponsored Mutual Fund Company Investors' opinion on Services Offered by Mutual Fund Companies**

| Services | Bank Sponsored Mutual Fund Company (n=195) | Non-Bank Sponsored Mutual Fund Company (n=462) | TOTAL (N=657) |
|---|---|---|---|
| Providing information and complaint rectification | 4.78 | 3.97 | 4.21 |
| Professional Management | 3.83 | 3.91 | 3.89 |
| TOTAL | 4.31 | 3.94 | 4.05 |

Table-2 furnishes the opinion of the respondents on the services offered by both types of mutual fund companies. It can be found that overall the respondents are very much satisfied with the services offered by both types of mutual fund companies. Among these two companies, bank sponsored mutual fund company investors gave higher rating on its services than the non-bank sponsored mutual company. Among the two services extracted from the factor analysis, all the respondents gave higher rating to the benefit, "Providing information and complaint rectification" irrespective of the type of mutual fund company.

**Table – 3: Bank and Non-Bank sponsored Mutual Fund Company Investors' opinion on Terms & Conditions Imposed by Mutual Fund Companies**

| Terms & Conditions | Bank Related Mutual Fund Company (n=195) | Non-Bank Related Mutual Fund Company (n=462) | TOTAL (N=657) |
|---|---|---|---|
| Adhering to rules and regulation | 3.42 | 3.69 | 3.61 |
| Charges | 3.87 | 3.83 | 3.84 |
| **TOTAL** | 3.65 | 3.76 | 3.73 |

Table-3 informs about the respondents opinion on the terms & conditions imposed by both types of mutual fund companies. It can be found that overall the respondents are quite happy with the terms and conditions imposed by the both mutual fund companies. Among these two types of mutual fund companies, respondents are relatively more happier with non-bank sponsored mutual fund companies terms and conditions than bank sponsored mutual fund company. All the respondents are quite happy with the charges imposed by these mutual fund companies.

**Table – 4: Ranking of Problems faced by the Investors of Bank and Non-Bank sponsored Mutual Fund Companies**

| S. No. | Problem | Bank Sponsored MF Companies (N=195) | | Non-Bank Sponsored MF Companies (N=462) | |
|---|---|---|---|---|---|
| | | Mean | Rank | Mean | Rank |
| 1 | Fear of unexpected loss | 4.12 | 3 | 3.85 | 1 |
| 2 | High loading charges | 4.56 | 4 | 4.23 | 3 |
| 3 | Uninformed deviation from scheme features | 3.91 | 2 | 4.35 | 4 |
| 4 | Delay in settlement | 5.12 | 6 | 5.11 | 6 |
| 5 | Delay in grievance handling | 6.09 | 8 | 5.40 | 7 |
| 6 | Lack of transparency | 3.69 | 1 | 5.02 | 5 |
| 7 | Poor performance | 5.78 | 7 | 5.64 | 8 |
| 8 | Lack of research & investor education | 4.58 | 5 | 4.14 | 2 |
| 9 | Non-receipt of statement of accounts | 6.73 | 9 | 7.53 | 9 |
| 10 | Failure in updating investor profile | 9.11 | 10 | 9.06 | 10 |

Table-4 furnishes the ranking of the respondents on the ten stated problems with mutual fund companies. Within the bank sponsored mutual fund company investors', higher rank was given to the problem, "lack of transparency", followed by the problems, "Uninformed deviation from scheme features" and "Fear of unexpected loss". Among the non-bank sponsored mutual fund company investors the major problems are "Fear of unexpected loss" followed by "Lack of research & investor education" and "High loading charges".

**Table – 5: Results of $H_{01}$**

| S.No | Investors Perception towards | p-value | Hypothesis Accepted / Rejected |
|---|---|---|---|
| **Benefits from choosing a mutual fund company** | | | |
| 1 | Diversification and Innovation | < . 0001 | Rejected |
| 2 | Tax and risk coverage benefit | < . 0001 | Rejected |
| 3 | Safety and repurchase option | < . 0001 | Rejected |
| **Services rendered by mutual fund company** | | | |
| 1 | Providing information and complaint rectification | < . 0001 | Rejected |
| 2 | Professional Management | < . 0001 | Rejected |
| **Terms & Conditions of Mutual Fund Company** | | | |
| 1 | Adhering to rules and regulation | < . 0001 | Rejected |
| 2 | Charges | 0.0076 | Rejected |
| **Performance of Mutual Fund Company** | | | |
| 1 | Overall performance of mutual fund company | < . 0001 | Rejected |

**Table – 6: Results of $H_{02}$**

| S.No | Problems | p-value | Hypothesis Accepted / Rejected |
|---|---|---|---|
| 1 | Fear of unexpected loss | 0.2066 | Accepted |
| 2 | High loading charges | 0.1605 | Accepted |
| 3 | Uninformed deviation from scheme featurs | 0.0535 | Accepted |
| 4 | Delay in settlement | 0.9568 | Accepted |
| 5 | Delay in grievance handling | 0.0006 | Rejected |
| 6 | Lack of transperancy | <.0001 | Rejected |
| 7 | Poor performance | 0.4687 | Accepted |
| 8 | Lack of research & investor education | 0.0888 | Accepted |
| 9 | Non-receipt of statement of accounts | 0.0022 | Rejected |
| 10 | Failure in updating investor profile | 0.7586 | Accepted |

## 8. DISCUSSIONS & SUGGESTIONS

- The study reveals that non-bank sponsored mutual fund companies are performing better than bank sponsored mutual fund companies. Hence, it is suggested that the authorities in the top management of concerned banks should change and refine the existing policies and strategies and give a stiff competition to the non-bank sponsored mutual fund companies.
- In spite of availability of huge customer database with these banks, they are unable cross sell the mutual fund schemes. Appropriate training coupled with data mining technology, banks shall tap their customer database to penetrate the mutual fund schemes into the market.
- Mutual fund companies should launch new and innovative schemes according to the varied needs of the investors. There is a lack of innovative

products in the market. People have the capacity to invest and this capacity has to be explored by the mutual fund companies. With the increasing awareness among the retail investors about capital markets, the mutual funds companies should come up with innovative schemes to fulfill the requirements of the retail investors.

- Among the ten investment options given to the respondents, majority of the respondents preferred secured deposits and investment in bullion and fifth place was given to mutual fund investment. This shows the poor understanding on mutual funds. Hence, it is suggested that vigorous advertisements should be given to create adequate knowledge about mutual fund schemes and they should realize that it is a better option than the other investment options.

## 9. CONCLUSION

The success of mutual fund industry is the perceived confidence of its investors in total. From the main objective of the study it is concluded that there exists significant perceptual differences among the bank and non-bank sponsored mutual fund investors towards investment in mutual fund schemes. Non-bank sponsored mutual fund companies are valued more by the investors perceiving that they are professional in fund management as against the bank sponsored mutual fund company as their main business is banking. Today, banks in India are diversifying their business activities and offering many financial services to the customers like insurance, mutual funds, etc. which are also available to customers from the specialized financial institutions. To impress the customers that they can effectively handle these diversified financial services, banks need to persuade them with effective promotional strategies and policies. Banks have an advantage of having huge customer database and can do effective cross selling with use of modern IT tools. Non-bank sponsored mutual fund companies, even though gained huge customer support and patronage, need to be very cautious in future as the banks can leverage on their customer database and the market knowledge. There is ample scope to the banks in attracting customers with their innovative and mass customized mutual fund schemes in near future.

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