An In-depth study on Investors Awareness about Mutual Funds in Gujarat State

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Investment is one of the important concerns for every investor. Various investment avenues available to an investor and mutual fund is also one type of investment avenue. Taking 463 respondents in the survey from Gujarat state, paper attempts to analyze critical factors affecting awareness about mutual funds. For the purpose of the study, structured questionnaire was prepared and were fill-up from potential respondents. The result extracted three important factors affecting awareness namely; conceptual, technical and operational awareness. It was found that investors were not fundamentally aware about the basic terms, terminology and working of mutual funds. Further, difference in awareness level was found in respondents while categories them on education level and employment status. From research point of view, present study would help companies and government to access the level of awareness about mutual funds among retail investors so they can take obligatory steps to improve same for the betterment of companies' future as well as to satisfy investors' expectations.

Keywords: Mutual Funds, Awareness, Investment Avenues

INTRODUCTION

In the kingdom of households, the biggest trends that have arisen in the past 20-25 years are disintermediation sometimes called disaggregation of financial services. Investorsare required to make complex and important financial decisions that they did not have to make in the past. In the past, people had defined benefit pension plans provided by their employers, which do not require management on the part of the householder. Post that this singularity is replaced by defined contribution plans in which employee must decide on the mix of investments. But today, the investors enjoy lots of opportunities and financial product choices. Although having choices is nice, it is also a quite difficult task to select among them. How do investors get the necessary knowledge and expertise for effective investment is a great matter of concern. Investors must make all the decisions and assemble the product parts to minimize risk.

There are a large number of investment instruments available in present days. Different investment avenues have different characteristics. Some may provide liquidity but low retrun, while some provide high return but are very risky. Before choosing the right avenue for investment, investors need to evaluate and compare them. This would also help him in creating a well-diversified portfolio, which is both maintainable and manageable.

A mutual funds is the answer to all these situations. It is ideal investment vehicle for today's complex and modern financial scenario. Mutual funds appoint professionally qualified and experienced staff that manages each of these functions on a full time basis. The large pool of money collected in the fund allows it to hire such staff at a very low cost to each investor. In effect, mutual funds vehicles develop economies of scale in all three areas - research, investments and transaction processing.

Indian investors invest money in conventional instruments such as bank deposits, post office savings certificates and provident fund. With this background, if consider Rs. 700000 crores (AMFI, 2011) that Indian mutual funds are managing, then it is no mean of achievement. Major of investment absorbed towards safe, risk-free investments like bank fix deposits, post office and life insurance compare to mutual funds. Compare to developed countries Indian investment could not turned out from traditional pattern.

On the basis of authenticated data published by government agencies it was found that, compare to developed countries; the growth of mutual funds industries in India is very low though it has existence since 1964 (with the establishment of Unit Trust of India). India's total share in worldwide mutual funds assets does not touch even one percent. India has low saving ratio in equity and mutual funds compare to other investment instruments. Retail investors do not prefer to invest in mutual funds. From the total investors, greater part of investment is concentrated to metro cities only (75 percent), reveals low level of penetration in urban, semi urban and rural areas[1]. These issues throw lights on poor presentation of mutual funds industries in India.

Above discussion emphasis certain issues and gaps that why mutual funds do not succeed in Indian market? Low penetration and institutional dominance in mutual funds market indirectly focuses on area under discussion of awareness about mutual funds among retail investors. Awareness is also an integral factor affecting mutual funds growth. It motivates researcher to do in-depth analysis that why retail investors do not prefer to invest in mutual funds? So, proposed study measures the level of awareness of retail investors with reference to mutual funds and to identify important factors that helps to increase awareness of mutual funds among retail investors.

INDIAN MUTUAL FUNDS INDUSTRY

Indian mutual funds industry has come a long way since the formation of the unit trust of India in 1963 by the government of India and the Reserve bank of India. Currently (as on Feb 2011), there are 44 mutual funds operating in the country with assets under management (AUM) of Rs 713000 lakh crores compared to Rs. 100000 crores as on December 2001 (AMFI, 2011). However, the quantum of mutual funds assets in financial savings is very low at less than 5 percent as most Indian savings are locked in bank fixed deposits, postal savings and insurance (AMFI, 2011).

Mutual funds assets worldwide touched $25.92 trillion at the end of the second quarter of 2011.By region, 55 percent of worldwide assets were in the America, 32 percent in Europe, and 13 percent in Africa and the Asia and Pacific region (Crisil, 2011). India's share in total assets does not touch even one percent. Mutual funds industry's net assets as a percentage of India's

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[1]www.crisil.com

GDP is 7.23 percent compared to 84 percent for the US, indicating India has a long way to go as compared to developed economies

The country wide mutual funds penetration is abysmal with majority of the assets (over 75 percent) being held in the top 5 cities (Mumbai, New Delhi, Bangalore, Chennai and Kolkata) - Mumbai alone accounts for 49 percent of the assets. Further, top 15 cities account for 87 percent of the assets under management[2].

Above analysis highlight certain issues such as negligible share of mutual funds in Indian GDP (Gross Domestic Product) growth compare to developed countries, sluggish increase in assets under management, low savings ratio in mutual funds, institutional dominance and low penetration in smaller towns faced by mutual funds industry in India. So, it is indicative that unawareness about mutual funds encourage investors shift to another investment instruments.

LITERATURE REVIEW

Mutual funds have attracted interest of both academic and practitioner communities. Compared to the developed markets, very few studies on mutual funds are done in India. Subsequent literature review presents investors behavior studies and tried to identify important variables which perform key role for creating awareness among investors.

Shanmugham (1990) examined the factors affecting investment decision and found that the investors are high risk takers. The investors possessed adequate knowledge of government regulations, monetary and fiscal policy.

SyamaSunder (1998) conducted a survey to get an insight into the mutual fund operations of private institutions with special reference to Kothari Pioneer. The survey revealed that the awareness about mutual fund concept was poor during that time in small cities like Vishakapatnam. The role of uncertainty and lack of knowledge about return on investment avenues are important components of any investment.

Shankar (1996) points out that the Indian investors do view mutual funds as commodity products and to capture the market AMCs (Asset Management Companies) should follow the consumer product distribution model.

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[2]www.crisil.com

Alexander et al., (1996) reported that only 18.9 percent of respondents could provide an estimate of expenses for their largest mutual fund holding. 57 percent stated that they did not know what the expenses were even at the time they made the mutual fund purchase.

A further look at behavioural data shows that non-professional investors might be classified into two groups based on knowledge, sophisticated and unsophisticated investors. Unsophisticated investor's focus their investments on funds based advertising and advice from brokers (Gruber, 1996). A main reason for this is their lack of knowledge and low level of involvement (Foxall et. al., 1998).

Kannadhasan (2006) examined the factors that influence the retail investors' decision in investing. The decision of the retail investors is based on various dependent variables viz., gender, age, marital status, educational level, income level, awareness, preference and risk bearing capacity.

According to SEBI-NCAER(National Council of Applied Economic Research) survey (2000)households preference for instruments match their risk perception; bank deposit has an appeal across all income class; 43 percent of the non-investor households apparently lack awareness about mutual funds and compared with low income groups, the higher income groups have a higher share of investments in mutual funds signifying that mutual funds does not truly become the investment vehicle for small investors; the number of households owning units of mutual funds is more (9 percent) than the investor households owning investments in shares and debentures (8 percent). It is puzzling to find a persistently high degree of lack of knowledge about the role of the regulator in the mutual funds markets.

An internally commissioned study by the NSE shows that the knowledge and understanding of financial products and services and their impact is important for investor's selection decision making process. Studies also found that investor expertise and knowledge is important to the decision-making process for the purchase of financial products or services (Perry et. al., 2005).

The aforementioned studies indicate that the evolution of mutual funds has been a matter of concern in India for the researchers, academicians, fund managers and financial analysts to a greater extent after 1985. The reviews bring to light the importance of mutual funds in the Indian financial scenario; highlight the need for investor awareness about mutual funds. So, the

proposed research work has been carried out to understand the factor affecting awareness about mutual funds.

OBJECTIVES OF THE STUDY

1. To identify the factors affecting awareness for investment in mutual funds.
2. To study the significant differences between socio economic profile of retail investors and extracted factor/s of awareness.

RESEARCH METHODOLOGY

Study utilized exploratory-descriptive research design. Researcher adopted survey approach to collect primary data. Convenience non-probability sampling method was used to select sample. As the population was not known, sample size has been determined considering 95 percent level of confidence at 5 percent tolerance error. With this, it was found that required sample size was about 385, while the actual numbers of respondents were 463; higher than the threshold. Data were collected from four major cities of Gujarat namely Ahmedabad, Rajkot, Surat and Baroda through structured questionnaire. In order to satisfy objectives of the study factor analysis and ANOVA were performed. Pilot testing was administered to assess the scale reliability.

DATA ANALYSIS AND FINDINGS

Table – I - Descriptive Analysis

Variable	Range	Frequency	%
Gender	Male	348	75.2
	Female	115	24.8
Age	21-30	195	42.1
	31-40	132	28.5
	41-50	88	19.0
	51-60	41	8.9
	More than 60	7	1.5
Marital Status	Single	164	35.5
	Married	297	64.1
	Others	03	0.4
Education	School	40	8.6
	Graduate	156	33.7
	Post graduate	195	42.1
	Professional	61	13.2
	Doctorate	8	1.7
	Others	3	0.6
Family Size	1 person	8	1.7

	2-3 persons	137	29.6
	4-5 persons	245	52.9
	More than 5 persons	73	15.8
Employment Status	Salaried	262	56.6
	Businessman /Self Employed	127	27.4
	Housewife	12	2.6
	Student	36	7.8
	Retired	17	3.7
	Unemployed	9	1.9
Monthly Income	Less than 10000	81	17.5
	10001 to 15000	69	14.9
	15001 to 20000	99	21.4
	20001 to 25000	85	18.4
	More than 25000	129	27.9
Monthly Investment in Mutual Funds	Less than 5000	257	55.5
	5001 to 10000	118	25.5
	10001 to 15000	62	13.4
	15001 to 20000	11	2.4
	More than 20000	15	3.2

On the whole, sample respondents were more dominated by male, almost 90 percent belong to middle and upper middle age group; between 21-50, have higher levels of education (graduate and postgraduate), with moderate family size, and with 64 percent married (n=297) and 36 percent unmarried (n=164). Majority of the respondent 56.6 percent (n=262) were salaried employee followed by businessman/self-employed 27.4 percent (n=127). Of the total respondent almost 90 percent were having their own house and almost 30 percent of the respondents monthly income was more than 25000 while majority respondent; almost 80 percent (n= 375) were investing less than Rs. 10000 per month in mutual funds.

RELIABILITY OF DATA

A multi item scale should be evaluated for accuracy and applicability (Malhotra, 2009). It is used to measure the strength of the scale. Questionnaire consist twenty two different statements on a 5-point scale. The content validity of the survey was assessed in a pre-test with 36 respondents not included in the sampling frame. Pre-test participants were asked to evaluate all aspects of the questionnaire, including the wording of individual items, the general flow and structure of the instrument and its comprehensiveness. Participants' suggestions were then incorporated into the survey prior to its final use. The most widely used reliability measure is Cronbach's Alpha. So,

in reliability analysis, the alpha (α) coefficient is calculated to find out the internal consistency of the items on the scale from 36 respondents.

Table – II - Reliability Statistics

Cronbach's alpha		
Number of questions	**Construct**	**Cronbach's alpha Value**
22	Awareness	**0.964**

Alpha value of 0.6 or less generally indicates unsatisfactory level (Malhotra, 2009). But in this survey test value was found more than the required value that indicates good consistency among items and tools developed for study are reliable and hence researcher can proceed further.

FACTOR ANALYSIS

The major objective of research is to study the factors affecting awareness for mutual funds. To fulfill the objectives, in-depth literature review was conducted and twenty two variables were identified. Since it is not possible for companies to concentrate on all twenty two variables; data are to be presented in summarized format. As present study chiefly aimed to identify the underlying constructs or "factors" that explain the awareness, factor analysis techniques found most suitable to achieve objectives.

Table – III – KMO and Bartlett's Test for Awareness

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		**.917**
Bartlett's Test of Sphericity	Approx. Chi-Square	3430
	Df	231
	Sig.	**.000**

The data collected was subject to factor analysis. To justify the application of factor analysis and in order to establish the strength of factor analysis, KMO Measure of Sampling Adequacy (0.917) and Bartlett;s test of Sphericity (0.000) was calculated (Hair et. al., 1998). Results indicated meritorious results and appropriateness of factor analysis. (Table III). Factors were extracted from twenty two variables using Principal Component Analysis method and Rotation method of Varimax, with criteria of eigenvalues greater than 1. It was resulted into extraction of

three factors. This supports the internal cohesiveness of the items forming each dimension. According to the loadings of variables on these three factors, they can be explained as:

Table – IV - Composition of each factor identified in factor analysis

Statements	Component		
	Factor I	Factor II	Factor III
A6	.794		
A18	.729		
A2	.700		
A1	.666		
A22		.783	
A17		.727	
A21		.711	
A4			.825
A3			.815

FACTORS' NAMING

Through factor analysis, researcher has extracted three factors which has been given priority by investors and which played important role in creating awareness about mutual fund. First factor refers to four variables, which deals with the concept and working of mutual fund. Hence, this factor has been given a name "Conceptual Awareness", that explains 24.82 percent of variance. Second factor consist three variables and this group of variables are concerned with operational awareness of mutual funds. Hence, this factor has been given a name "Operational Awareness",it explains 20.04 percent of variance. Third factor deals with awareness regarding types and terminology used in mutual funds industry. Hence, this factor has been given a name "Technical Awareness", which explains 18.83 percent of variance. It is evident here that respondents are more concerned about the conceptual, operational and technical awareness.Through factor analysis researcher has reduced number of variables affecting awareness into three groups and concluded that investors are more concern about conceptual, technical and operational awareness about mutual funds.

As it is evident from above analysis, factor analysis is only data reduction technique that reduces the number of factors or variables to small number of factors; but it does not provide relative

importance given to different factors by different categories of respondents. To fulfill this objective researcher has applied ANOVA test to compare mean score of respondent on different extracted factors.

ANOVA ANALYSIS

ANOVA test was conducted to study the significant differences in mean score (Malhotra, 2009) between demographic variables and three factors extracted through factor analysis namely conceptual, technical and operational awareness. Based on ANOVA analysis, no significant difference was found in demographic variables for operational awareness and technical awareness.It can be concluded that operational awareness and technical awareness is independent.While in case of conceptual awareness, the difference was found to be significant as far as education level and employment status is concern.

Table – V –ANOVA Analysis for Demographic Variables

Factor	Gender	Age	Education Level	Employment Status
Conceptual Awareness	.963	.083 (WelchANOVA)	**.026**	**.000**
Operational Awareness	.316 (Welch ANOVA)	.408	.714 (Welch ANOVA)	.170
Technical Awareness	.708	.292 (Welch ANOVA)	.391	.085
Post Hoc Analysis			**School – Post Graduate - .005, -.548**	**Salaried – Students- .000, .664 Businessman-students-, 002, .635**

As the value of ANOVA turnout to be significant for conceptual awareness, one additional test "Post-hoc" is performed to check pair wise differences in the means (Nargundkar R. 2010). Based on Post-hoc analysis, it was found that the level of conceptual awareness is significantly

different in "school level and post graduate" respondents and it was also found that the respondents having post graduate level education were more conceptually aware about mutual funds compare to school level education. In case of employment status the difference was found to be significant and salaried employee and businessman/self-employed were found to be more conceptually aware than students.

DISCUSSION

Collected data were analyzed using SPSS software package. Factor analysis was first applied to awareness construct to assess unidimensionality (Conway and Huffcutt, 2003). Post that ANOVA analysis was applied to study the significant differences in mean score of demographic variables and three factors extracted through factor analysis. Factor analysis result shows that 22 items were grouped in to three factors: Conceptual, Technical and Operational Awareness.

Mutual funds have attracted attention and interest of investors. But compared to developing countries, mutual fund does not succeed in India. There is still lot to be done for successful penetration of mutual funds in interior part of India. Present study identifies key factors which play important role for creating awareness about mutual funds among retail investors. Based on analysis, low level of conceptual, technical and operational awareness was found among retail investors. Research reveals that investors were not fundamentally aware about the basic terms, terminology and working of mutual funds. Further, difference in awareness level was found in respondents while categories them on education level and employment status.

One of the possible explanations for low level of awareness could be; mutual funds industry has served by only 60000 independent advisors while insurance sector served by more than 10 lakh advisors. This requires a well-designed set-up of financial intermediaries to play a key role to penetrate mutual funds among mass market and to increase the level of awareness among retail investors.

Another reason for low level of awareness could be the low level of literacy prevailing among respondents which create ambiguity for taking investment decision.A serious national campaign to promote savings through education and information could have a measurable impact on financial decision. Further based on analysis it was found that the awareness about the mutual

fund concept is very poor. It is recommended to introduce investors' education programmes to increase awareness.

It is suggested that, SEBI shall put in action a set of mechanisms that would permit investors to efficiently access the mutual funds market. Enormous amount of information available about the mutual funds in the market also affects the involvement of investors due to lack of expertise and access to information. In order to comfortably make an investment decision not relying on heuristics, humble efforts are required to provide detailed information to investors about mutual funds.

Present study would help companies and government to access the level of awareness about mutual funds among retail investors and key variables priorities by respondents, so companies can take obligatory steps to improve same for the betterment of companies' future as well as to satisfy investors' expectations. It also helps government to introduce investors' awareness education programmes which would help to increase awareness about the concept and working of mutual funds.

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