

A study of demand side factors responsible for low penetration of mutual funds amongst individual investors

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Abstract - *The attempts to identify demand side factors responsible for low penetration of mutual funds amongst individual investors. Survey of 400 respondents was conducted in Nasik district with the help of structured questionnaire. Mutual funds which are known as investment option can also prove as one of the most effective mechanism for economic growth of the country. It is specially devised for middle class people who can get the benefits of investing in equity market with minimized risk. The idle resources of the middle income group are diverted to equity market. From these perspectives mutual funds play vital role in the development of financial system.*

But its performance in India is poor as compared to the other countries in the world. It is observed that out of total investment from individual investors 87% of the share come Top 15 cities in India and only 13% investment in mutual funds comes from rest part of the country and very less participation from rural population

Key Words: Mutual Funds, penetration, demand side factors, non investors, motivating factors.

1. INTRODUCTION

Financial development can be viewed as a process that enhances four critical attributes of financial system efficiency, stability, transparency and inclusion. The emergence of intermediation mechanism and products that help to improve one or more of these without causing other to weaken

are therefore meaningful indicator of financial development.

From this perspective mutual funds play important role in the development of the financial system. They pool the resources of small investors and increase their participation in financial sector. Being institutional investors they are able to invest in the market which is not generally accessible to individual investors. Decisions taken on the basis of deeper understanding of risk and return contribute to financial stability. Besides helping to mitigate market risk transparency in investment is also maintained

1.1 Current scenario of mutual fund industry

At present there are 44 mutual fund houses in India with more than 6000 schemes. The asset under management as on March 2013 is 8, 16,400 Cr. It was 722526.08 Cr. as on November 2012. The industry has grown exponentially since inception from 2500 Cr. of AUM in 1967 to 722526.08 in 2012. But in spite of being available in market for such a long time asset of mutual funds in India constitute less than 10% of GDP and less than 10% of household have invested in mutual funds. (Source)

Last few years there took a series of events within and outside the Indian economy which deleteriously affected the industry. The mutual fund industry, beset by net redemptions by investors and adverse global and local market conditions, shrank by 1.6% in terms of assets under management during the year FY2011-2012.

Tough times can be seen as an opportunity for the industry to reinvent itself. The industry has moved beyond the first phase in which it established itself as a part and parcel of the investment matrix. The industry needs to evolve again to strengthen its position.

This research will include analytical study of mutual fund industry which will contribute to growth of the industry as whole

1.2 Research Problem and Objectives

Research Problem:

To find out the reasons, for low penetration of mutual funds among individual investors

Objectives of studies:

- To find out awareness about mutual fund as an investment option among individual investors in Nasik district.
- To study the demand side factors responsible for low penetration of mutual funds amongst individual investors in Nasik district.
 - Reasons for not investing in mutual funds
 - Steps which will motivate investments in mutual funds
- To compare opinion of urban and rural mutual fund non investors about mutual funds

2. Data Analysis and Interpretation

Table -1: Awareness about mutual funds

Particulars	Urban	Rural
Yes	130	60
No	70	140
Total	200	200

Interpretation: 65% respondents know about mutual funds as an investment options. And 35% are not known to it. 70%

respondents in rural area don't know about mutual funds as an investment.

Table -2: Awareness about benefits of Mutual funds

Particulars	Urban	Rural
Yes	90	30
No	110	170
Total	200	200

Interpretation: 55% respondents know about benefits of investing in mutual funds and 45% and unaware. 85% of rural respondents are not aware about benefits of investing in mutual funds.

Table -3: Factors which stops investment

Factors	Urban		Rural	
	Scores	Rank	Scores	Rank
Lack of awareness	81	4	88	1
Lack of procedural clarity	85	2	74	4
Less returns	69	7	69	6
High risk	83	3	75	3
Negative feedback by friends or relatives	86	1	64	8
No control over portfolio	30	12	39	10
Mutual funds invest in stock market	70	6	66	7
Other investment option is more attractive	67	8	88	2
Not aware about benefits	41	10	73	5
Difficult offer document	45	9	27	12
Difficult to select suitable scheme	37	11	49	9
Lack of guidance	79	5	22	11

Chart -1: Factors which stops investment

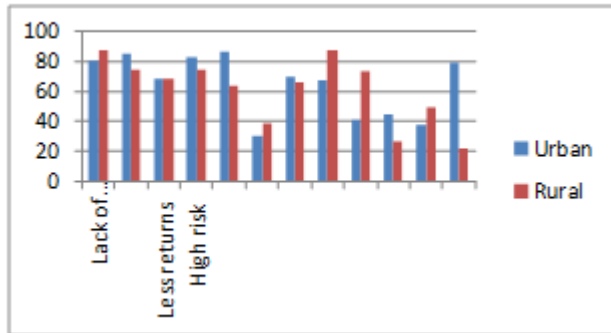


Chart -3: Willingness of Rural Respondents

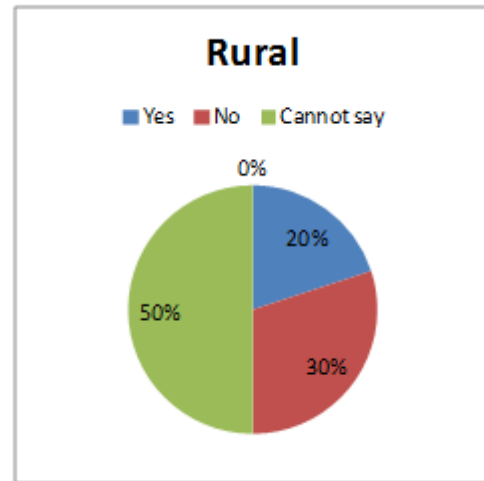


Table -4: Willingness for investment in mutual funds

Particulars	Urban	Rural
Yes	70	40
No	20	60
Cannot say	110	100
Total	200	200

Interpretation: 55% of urban and 50% of rural respondents is confused to select mutual funds as investment option. Only 10% of urban respondents said that they will not invest in mutual funds.

Chart -2: Willingness of Urban Respondents

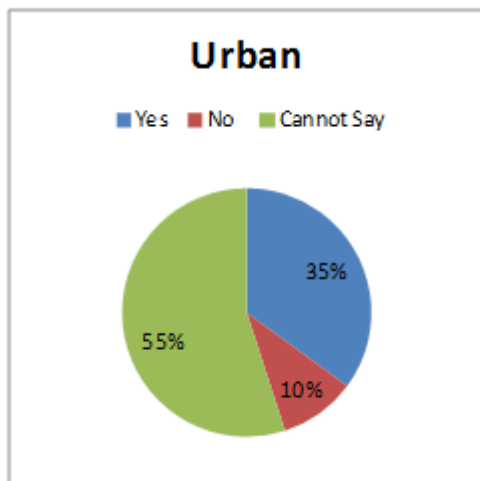
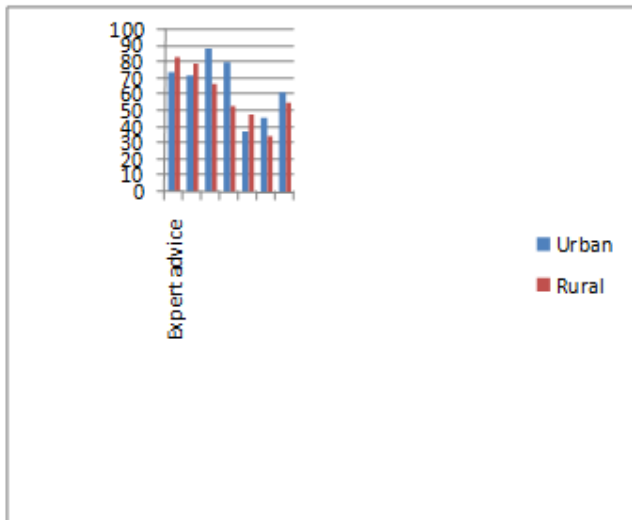


Table -2: Factors which may motivate for investment in mutual funds

Factors	Urban		Rural	
	Scores	Rank	Scores	Rank
Expert advice	74	3	83	1
Training programs	72	4	79	2
Information about government regulation	89	1	67	3
Guidance by financial advisor	80	2	53	5
Strong grievance mechanism	38	7	48	6
Simplified documents Offer	46	6	34	7
Make the process of investment more simple and convenient	61	5	55	4

Chart -4: Factors which motivates for investment



Interpretation: Training programs, expert advice, guidance by financial advisor are the major factors which may motivate the people to invest in mutual funds.

Findings and conclusion:

1. Majority (70%) respondents from rural area are not aware about mutual funds as an investment option as compared to only 35% in urban area.
2. Most of the respondents(85% in rural and 55% in Urban area) in Nasik district are not aware about benefits of investing in mutual funds
3. Both urban and rural respondents on an average said that they are unsure whether they will invest in mutual funds or not
4. Negative feedback by friends and relatives, lack of procedural clarity, high risk are the top most factors which stops the urban respondents from investing in mutual funds. And Lack of awareness, better investment option, and high risk are the factors which stops rural respondents from investing in mutual funds.
5. Expert advice, information about government regulation and guidance from financial advisor are the steps which may motivate the people of Nasik district to invest in mutual funds

Conclusion: Awareness level is very less about mutual funds. There is huge scope for mutual fund companies to enter in rural area. Financial advisor can play a significant role in penetration of mutual funds.

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