

An Exploratory Study on Perception of customers and Consumer Behavior towards Mutual Fund

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Abstract

In a mutual fund, many investors contribute to form a common pool of money. This pool of money is invested in accordance with a stated objective. The ownership of the fund is thus joint or “mutual”; the fund belongs to all investors. A single investor’s ownership of the fund is in the same proportion as the amount of the contribution made by him bears to the total amount of the fund¹. A perceptible change is sweeping across the mutual fund landscape in India. Factors such as changing investor’s needs and their appetite for risk, emergence of Internet as a powerful service platform, and above all the growing commoditization of mutual fund products are acting as major catalysts putting pressure on industry players to formulate strategies to stay the course². Mutual Fund industry in India came to Planet Earth, with the setting up of the Unit Trust of India (UTI) in 1964 by the Government of India. Like all other Mutual Funds globally, the goals set for me were similar where money from retail collective investments was pooled together with the intention of investing it in a range of securities and debt instruments.

The main purpose of this research is to understand customers’ choice and customer behavior towards mutual funds investment³. Though, during the research, it has been revealed that, there is a less awareness about mutual funds among customers. Needless to point out few questions in this regards such as, ; (a) what is the perception of consumers about mutual fund; (b) what are chances of investment by potential customers in Mutual Funds; and (c) what is level of satisfaction among the investors in mutual fund. The research has been concluded with customers are overall satisfied with mutual fund investment and attracted towards it simply because of its linked to equity market.

Keywords: Perception of consumers, Behavior of Consumers, Mutual Funds

Introduction

A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is then invested in capital market instruments such as shares, debentures and other securities. The income earned through these investments and the capital appreciation realized is shared by its unit holders in proportion to the number of units owned by them. Mutual Fund companies are known as asset management companies. They offer a variety of diversified schemes. They pool the savings of investors and invest them in a well-diversified portfolio of sound investments.

There are few myths in regards with mutual funds⁴. These myths impact on the perceptions and expectations of the customers at the time making investments. The first myth is that, Mutual Funds invest only in shares, which is absolutely wrong. Mutual Funds also invest in debt securities along with other investment options which are relatively much safer. Second myth about Mutual Funds is Mutual Funds are prone to very high risks/actively traded. Though the risk is always there in any kind of investment decisions, the biggest advantage of Mutual Funds is their ability to diversify the risk. The other myths are like; Mutual Funds are very new in the financial market; Mutual Funds are not reliable and people rarely invest in them; and finally, the good thing about Mutual Funds is that you don't have to pay attention to them⁵.

All these myths led the changing scenario regarding Mutual Funds investments and diluted the miss conceptions regarding expectation and perceptions of the customers.

Section-(i)

Statement of the Research Problem

All the discussions made in the introductory section of this research paper, provided insights into curiousness of the researcher and formulated a basis of inquiry into understanding of perceptions and expectations of the mutual funds customers. The title of the present research itself may be treated as the statement of the research problem. Though, implications of the economic growth in India has raised income level of the Indian citizens leading to start saving. The habit of saving among the citizen may be treated as good behavior but only when those savings have been converted into investments. With these intensions, mutual fund investment is more flexible considering the saving pattern of common man. Considering all the aspect of the discussions made in this section, it has to be pointed out that, the present research addresses the research questions such as; (a) what is the perception of consumers about mutual fund; (b) what are chances of investment by potential customers in Mutual Funds; and (c) what is level of satisfaction among the investors in mutual fund.

All these questions mentioned here can be treated as the part of research problem of the present study.

Section-(ii)

Aims and Objectives of the study

Investigating consumer behavior and consumer perception is the major aim of this research. Though, considering research questions intended in the above section, research objectives have been detailed and presented in this section.

1. To identify the consumer perception about mutual fund.
2. To know whether they are going to invest in the Mutual Fund in future.
3. To study the level of satisfaction on the investment of mutual fund investor.

All the objectives mentioned above have been investigated and concluded in the present research.

Section-(iii)

Hypothesis of the study

In the present research, an effort has been made to test below mentioned hypothesis-

H₀- Customers are not overall satisfied with mutual fund investment

H_a- Customers are overall satisfied with mutual fund investment

The detailed test procedure has been elaborated along with test results and interpretation in the respective section of this study.

Section-(iv)

Conceptual Understanding of the Mutual Funds

The mutual fund will have a fund manager who is responsible for investing the gathered money into specific securities (stocks or bonds). When you invest in a mutual fund, you are buying units or portions of the mutual fund and thus on investing becomes a shareholder or unit holder of the fund. Mutual funds are considered as one of the best available investments as compare to others they are very cost efficient and also easy to invest in, thus by pooling money together in a mutual fund⁶, investors can purchase stocks or bonds with much lower trading costs than if they tried to do it on their own. But the biggest advantage to mutual funds is diversification, by minimizing risk & maximizing returns. Any change in the value of the investments made into capital market instruments is reflected in the Net Asset Value (NAV) of the scheme. NAV is defined as the market value of the Mutual Fund scheme's assets net of its

liabilities. NAV of a scheme is calculated by dividing the market value of scheme's assets by the total number of units issued to the investors.

History of Mutual Funds in India⁷

In the first phase, Unit Trust of India (UTI) was established on 1963 by an Act of Parliament by the Reserve Bank of India and functioned under the Regulatory and Administrative Control of the Reserve Bank of India. In 1978, UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI. The first scheme launched by UTI was Unit Scheme 1964. At the end of 1988 UTI had Rs.6,700 crores of Assets Under Management.

During second phase, 1987 marked the entry of non – UTI, public sector mutual funds set up by public sector banks and Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC). SBI Mutual Fund was the first non – UTI Mutual Fund established in June 1987 followed by Can Bank Mutual Fund (Dec 1987), 'NJ India Invest Pvt Ltd' National Bank Mutual Fund (Aug 1989), Indian Bank Mutual Fund (Nov 1989), Bank of India (Jun 1990), Bank of Baroda Mutual Fund (Oct 1992). LIC established its mutual fund in June 1989 while GIC had set up its mutual fund in December 1990. At the end of 1993, the mutual fund industry had Assets Under Management of Rs.47,004 crores.

1993 was the year of *third phase* in which the first Mutual Fund 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. As at the end of January 2003, there were 33 mutual funds with total assets of Rs.1,21,805 crores.

In February 2003, following the repeal of the Unit Trust of India Act 1963 UTI was bifurcated into two separate entities representing *fourth phase*. 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. The second is the UTI Mutual Fund Ltd, sponsored by SBI, PNB, BOB and LIC. It is registered with SEBI and functions under the Mutual Fund Regulations, consolidation and 'NJ India Invest Pvt Ltd' growth. As at the end of September 2004, there were 29 funds, which manage assets of Rs.1,53,108 crores under 421 schemes.

The industry has also witnessed several mergers and simultaneously, more international mutual fund players have entered India like Fidelity, Franklin Templeton Mutual Fund etc. At present there are 44 Mutual Fund Houses in India with Average

Assets under Management (AAUM) Rs. 71328123.33 Lakhs, considered as *last phase* in the history of Mutual Funds in India⁸.

Section-(v)

Research Methodology

The analysis of behaviour of customers regarding mutual funds, for making investments and trading and analysing effectiveness of the awareness program “Mutual Funds Simplified” has been done with the help of exploratory research technique. A pretested questionnaire toll has been canvassed to get the primary data in terms of opinions from customers. The sample size for the study has been considered of 50 customers and their views solicited on different parameters. The respondents have been selected from Pune Area and simple random technique has been applied at the time of selecting sample from population. Based on strict anonymity, one of the leading investments firm has been approached to get valid list of customers for preparing sampling design.

Testing hypothesis has been carried out with the help of ‘t’ test and deductive reasoning approach has been applied for generalization of the study.

Section-(vi)

Data Analysis and Interpretation

General

Tabulation, analysis and interpretation of the present research have been carried out with the help of M/s. Excel spread sheet. The major parameters streamlined with intension to cater details for the present research has been analyzed and presented here. With the help of *Table No. 1.1*, it has been assessed that, almost half of the respondents replied with their opinion about mutual fund market with favorableness and remained almost half of the respondents mentioned their negative opinion in respect to the condition of mutual fund market situation.

Table No. 1.1

Opinions of respondents regarding mutual fund market condition

Sr. No.	Status of mutual fund market	No. of respondents	Per cent
I	II	III	IV
1	Good condition	23	46%
2	Average	21	42%
3	Poor	06	12%
	Total	50	100%

(Source: Field Investigation)

The mutual funds investment market is observed to be the better in comparison with the other investment options available. This fact has been revealed and supported with the help of data tabulated in **Table No. 1.2**. It would be seen from the table that, almost 64 per cent of the respondents mentioned affirmative to this situation highlighting better opportunities in mutual fund market.

Table No. 1.2
Opinions of respondents regarding better opportunities in mutual fund

Sr. No.	Better opportunities in mutual fund investment	No. of respondents	Per cent
I	II	III	IV
1	Yes	32	64%
2	No	18	36%
	Total	50	100%

(Source: Field Investigation)

‘Three dimensional approach’ has been applied in investigating the general opinions of the respondents regarding mutual funds investments. Accordingly opinions of the respondents has been canvassed on⁹ (a) whether mutual fund is the best investment option, (b) it treated as an avenue for the investors and finally opinions are asked for understanding (c) whether mutual funds are capable to attract customers. The detailed tabulation of the opinions of on these three dimensions has been presented in this section with the help of **Table No. 1.3**. It would be seen from the table that, almost all the questions have been opined affirmative in regards to all the dimensions mentioned above, though, negligible variation has been observed.

Table No. 1.3
Opinions of respondents regarding Mutual Fund Investment

Sr. No.	Responses	Best investment option		As Avenue for customers		Attracting customers	
		Respondents	Per cent	Respondents	Per cent	Respondents	Per cent
I	II	III	IV	V	VI	VII	VIII
1	Yes	48	96%	42	84%	36	72%
2	No	02	04%	08	16%	14	28%
	Total	50	100%	50	100%	50	100%

(Source: Field Investigation)

The respondents have been mentioned basic three reasons for investing in mutual investment. Even, having risk in mutual fund investment option (as stated by 66 per cent respondents), more than 56 per cent respondents mentioned that mutual fund investment is better option than investing in gold and also it is preferred investment avenue. The further tabulation has been offered in **Table No. 1.4**.

Table No. 1.4
Opinions of respondents regarding Mutual Fund Investment

Sr. No.	Parameters	No. of Respondents			Per cent Respondents		
		Yes	No	Total	Yes	No	Total
I	II	III	IV	V	VI	VII	VIII
1	Any risk or uncertainties in the market	33	17	50	66%	34%	100%
2	Mutual fund investment is better than gold investment	26	24	50	56%	48%	100%
3	Mutual fund is preferred Investment Avenue	29	21	50	58%	42%	100%

(Source: Field Investigation)

All the respondents have mentioned that, Mutual Fund has been seen as growth option in future. The basic reason for inventing in mutual fund is that, it is linked to equity market and can assure certain rate return. Other reasons are not so strongly supported by the opinions of the respondents during study. Further details have been provided with the help of *Table No. 1.5*.

Table No. 1.5
Opinions of respondents regarding reasons for investing in Mutual Fund

Sr. No.	Better opportunities in mutual fund investment	No. of respondents	Per cent
I	II	III	IV
1	Attractive investment option	07	14%
2	Linked to equity market	30	60%
3	NAV and good returns	13	26%
	Total	50	100%

(Source: Field Investigation)

In a summary, it will be noted that mutual fund investment is having certain risk but mostly preferred by the people to invest in it, rather than investing in gold. The reason for this investment is that Mutual Funds are linked to equity market and assure certain rate of return. Regarding satisfaction of the customers, details have been tabulated and interpreted with the help of ‘t’ test statistics in the next section.

Hypothesis Testing

In this section as effort has been made to test below mentioned hypothesis-

H₀- Customers are not overall satisfied with mutual fund investment

H_a- Customers are overall satisfied with mutual fund investment

Considering the hypothesis and five point likert scale data, one sample ‘t’ test has been considered to be suitable to test the hypothesis. In this test basically the distance of the observed arithmetic mean has been tested from its standard mean, that is assumed to be 3 representing neutrality in five point Likert scale. The detailed calculations have been presented below-

Table No. 1.6
Descriptive Statistics for Level of satisfaction

Mean	3.76
Median	4.00
Mode	4.00
Standard Deviation	1.44
Minimum	1.00
Maximum	5.00
Count	50.00

(Source: Field Investigation)

Based on the descriptive analysis made for variable level of satisfaction, with reference to Table No. 1.6, it would be seen that, overall level of satisfaction has been observed to be the magnitude of 3.76 which is closer to the scaling item ‘satisfied’. The standard deviation for the same has been accounted for 1.44 that is also enough to explain that arithmetic mean of the level of satisfaction is good representative of the overall sample observations.

Table No. 1.7
t-Test: Two-Sample Assuming Equal Variances
for Hypothesis H1

	<i>Level of satisfaction</i>
Mean	3.76
Variance	2.06
Observations	50.00
Pooled Variance	1.03
Hypothesized Mean	
Difference	3
df	98
t Stat	3.74
P(T<=t) two-tail	0.00
t Critical two-tail	1.98

(Source: Field Investigation)

On securitizing the results mentioned in the Table No. 1.7, once can simply state that mean difference 1.03 from assumed standard mean ‘3’ is significant. As the probability ($P(T \leq t) / \text{Two Tailed} : 0.00$) of observing ‘t’ statistic (that is 3.74) has been observed to be significantly less than ‘level of significance (0.05)’¹⁰. Hence,

ultimately, hypothesis null may be rejected in this case and interpretation may be mentioned as, **Customers are overall satisfied with mutual fund investment** with accepting alternate hypothesis.

Section-(vii)

Findings, Conclusions and Suggestions

In this section, summary of findings along with concluding remarks and suggestions have been offered.

Summary of findings

- The mutual funds investment market is observed to be the better in comparison with the other investment options available, it has been observed to be the better in comparison with the other investment options available. This point to be noted that Mutual fund investment is observed to be better option than investing in gold, as said by respondents.
- It has been observed that mutual fund investment has been treated as an avenue for the investors and is capable to attract customers.
- All the respondents have mentioned that, Mutual Fund has been seen as growth option in future. The basic reason for investing in mutual fund is that, it is linked to equity market and can assure certain rate return
- Finally with the help of hypothesis testing results it may be noted that, customers are coverall satisfied with mutual fund investment with accepting alternate hypothesis.

In consideration of the above summary of findings, generalized statement regarding concluding observations may be offered in this section.

Concluding Observations

The entire research may be concluded aligned with the objectives of the present research as mentioned below-

In accordance with **first objective**, it may be stated that, consumers of mutual funds perceived it as better investment option in comparison with the other investment options available and they prefer to invest in it than investing in gold.

It has been revealed during the study that customers o0f mutual funds are ready to invest in the mutual funds but if it assure linkage to equity market, provided that the investment in mutual funds is able to fetch more returns than investing in gold. This concluding observation refers to the **second objective** of the present research.

Finally, for the *third objective*, research present research can be concluded with due level of confidence that, customers of the mutual funds have expressed their overall satisfaction for the investment they have made in mutual funds.

Suggestions

Keeping in mind findings and conclusions based on the investigation made in the present research, and observations carried out during study, below mentioned suggestion can be offered-

It has been revealed that customers are overall satisfied with the mutual funds though; it is challenging to keep their level of satisfaction intact and to achieve this, continuous review of the returns on investments (mutual fund investment), comparative study of gold investment with mutual fund investment along with satisfaction survey of customers should be conducted periodically. In fact this should become a part of regular operations.

Finally, it needs to be mentioned specifically that, this research was undertaken with the intension of contributing to the understanding of the mutual fund investors behavior to offer probable solutions in the light of findings. This study has added to the current body of knowledge relating to behavior of mutual fund customers and also it has provided insight into areas that warrant further exploration.

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