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STATEMENT OF THE PROBLEM

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HYPOTHESIS (ES)

RESEARCH METHODOLOGY

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FINDINGS

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RURAL INVESTORS' PERCEPTION TOWARDS MUTUAL FUND DISTRIBUTION

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ABSTRACT

Mutual fund industry has become the primary source of economic growth. But the industry still lacks growth far behind in terms of total assets with respect to other developed nations. One of the main reasons for lack of growth is that its failure to tap the semi-urban and rural areas. The Mutual fund industry in India is slowly shifting from top 15 cities to beyond top 15 locations to expand their market base and to tap the untapped B15 potential market avenues (Indian mutual fund industry: Challenging the status quo, setting the growth path, CII (Confederation of Indian Industry) and PwC (PricewaterhouseCoopers), Mutual fund Summit, 2013). Various modes of distribution channels were followed by the investment advisory firms to penetrate into semi-urban and rural areas. This study determines the perception of rural investors (from B15 locations) towards the various mutual fund distribution channels adopted by the investment advisory firms. This study recommends the mutual fund agencies to reach the prospective investors in rural areas of Madurai city through modern forms of electronic communication (mobiles) and expand their distribution network through banking technologies, India post office and Fair price shops in order to make the campaign more personalized and reach the targeted in the untapped rural market.

KEYWORDS

investor, investment advisory firm, mutual funds.

INTRODUCTION

The mutual fund is a type of professionally-managed collective investment scheme which pools money from many investors. The profit gained from investments is shared to unit holders in proportion to the number of units owned by them. Thus, a Mutual Fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost. The story of mutual fund industry in India started in 1963 with the formation of Unit Trust of India at the initiative of the Government of India and Reserve Bank. The launching of innovative schemes in India has been rather slow due to prevailing investment psychology and infrastructural inadequacies. Mutual funds have evolved over the years keeping in view the changes in the economic and financial systems, as well as the legal environment of the country. According to the requirements and changes in the investors' perceptions and expectations, new products are launched. Past studies revealed that mutual fund in India is growing but the industry is still struggling to win the investors' confidence and to reach the beyond top 15 cities in India. One of the main reasons for lack of growth is that the lack of investors' confidence especially from the semi-urban and rural areas. The Mutual fund industry in India is slowly shifting from top 15 cities to beyond top 15 locations to expand their market base and to tap the untapped B15 potential market avenues (Indian mutual fund industry: Challenging the status quo, setting the growth path, CII and PwC, Mutual fund Summit, 2013). Various strategies were devised by the AMFI (Association of Mutual funds of India), SEBI (Securities and Exchange Board of India) & investment advisory firms to penetrate into semi-urban and rural areas. This study determines the investors' perception towards the various distribution channels of investment advisory firms.

Marketing is very important issue now a days and service marketing is accepted and necessary for all the service industry participants. Mutual funds are not away from this truth. Mutual Fund Marketing is different from marketing of other goods because the past performance of the Mutual fund and general expectations can be told, no performance guarantee can be given in case of Mutual fund. According to Trivedi Akhil various channels adopted by Mutual Funds can be divided into three main headings:

- 1. DIRECT MARKETING:** This constitutes 20 percent of the total sales of mutual funds. Some of the important tools used in this type of selling are: Personal Selling, Telemarketing, Direct mail, Advertisements in newspapers and magazines & Hoardings and Banners
- 2. SELLING THROUGH INTERMEDIARIES:** Intermediaries contribute towards 80% of the total sales of mutual funds. These are the distributors who are in direct touch with the investors. They perform an important role in attracting new customers. Most of these intermediaries are also involved in selling shares and other investment instruments. They do a commendable job in convincing investors to invest in mutual funds. A lot depends on the after sale services offered by the intermediary to the customer.
- 3. JOINT CALLS:** This is generally done when the prospect seems to be a high net worth (HNI) investor. The agent (who is located close to the HNIs residence or area of operation) visits the prospect and briefs him about the fund. The conversion rate is very high in this situation, generally, around 60%. Both the fund and the agent provide even after sale services in this particular case. 'Meetings with HNI' is a special feature of all the funds. Whenever a top official visits a particular branch office, he devotes at least one to two hours in meeting with the HNIs of that particular area. This generally develops a faith among the HNIs towards the fund.

REVIEW OF LITERATURE

Ippolito (1989) stated that investor is ready to invest in those fund or schemes which have resulted good rewards and most investors' is attracted by those funds or schemes that are performing better over the worst. Rajeswari and Ramamoorthy (2001) have conducted a study to understand the factors influencing the fund selection behaviour of 350 MF (Mutual fund) investors in order to provide some meaningful inferences for Asset Management Companies (AMC) to innovatively design the products. Sankaran (2004) proposed the future direction for investors to invest in pension funds, as government is envisaging a policy to cover all kinds of investors. He further opined that MF industry will continue to grow in spite of competition and will be propelled in the right direction because of the investor friendly financial markets. H. Desigan et al. (2006) conducted a study on women investor's perception towards investment and found that women investor's basically are indecisive in investing in MF's due to various reasons like lack of knowledge about the investment protection and their various investment procedures, market fluctuations, various risks associated with investment, assessment of investment and redressal of grievances regarding their various investment related problems. K. Lashmana Rao (2011) made analysis of perception of Investor towards mutual fund schemes, he made conclusion SEBI, AMFI, and IRDA (Insurance Regulatory Authority of India) should take appropriate steps to enhance Investors knowledge for making more prudent decisions.

NEED FOR THE STUDY

In order to expand the market base of the mutual fund industry, appropriate distribution network need to be devised. Though the industry is widespread, still as per ICI (Investment Institute Company) Fact book 2013, AUM (Asset Under Management) to GDP (Gross Domestic Product) ratio of our country stands at 7% only compared to a global average of 37%. Thus there is a need to determine the investors' perception towards the present distribution channels in order to redesign the same. Although many studies were conducted in mutual fund awareness, performance evaluation and preference towards various schemes, no study exists in finding out the perception of investors towards the distribution channels especially in the rural and semi-urban areas, which is called as B15 (Beyond top 15 cities in India) and requires mutual fund penetration.

STATEMENT OF THE PROBLEM

As per the CII – PwC report on “Indian Mutual Fund industry, 2013”, increasing mutual fund penetration will largely depend on increasing investor awareness at grass-roots level. However, AUMs have so far been largely concentrated in the top 15 cities in the country, with smaller cities and rural areas having minimal contribution to the industry. The Mutual fund industry in India is slowly shifting from T15 (Top 15 cities) to B15 (beyond top 15 cities) locations to expand their market base and to tap the untapped B15 potential market avenues (Indian mutual fund industry: Challenging the status quo, setting the growth path, CII and PwC, Mutual fund Summit, 2013). Thus the present study is an attempt to determine the perception of investors towards the existing distribution channels of the investment advisory firms.

OBJECTIVES OF THE STUDY

In light of this background this study tries to achieve the following objectives:

1. To identify the existing distribution channels followed by the investment advisory firms in the semi-urban and rural areas of Madurai city.
2. To analyze rural investors' perception towards the various distribution channels
3. To offer valuable suggestions to the investment advisory firms, regulatory authorities & the government to redesign the distribution network and to penetrate the untapped semi-urban and rural areas

SCOPE OF THE STUDY

The study assessed the perception of investors in the three rural areas around Madurai city (Chellampatti, Karumathur & Pappapatti) towards the three distribution channels viz. direct selling, selling through intermediaries & joint calls of mutual fund investment firms. Madurai is one of the B15 cities in India. So the study chose Madurai as the area of study. The study was conducted for a period of three months from June – August 2015.

HYPOTHESES TESTED

Based on the above objectives, the following hypotheses were framed and tested using appropriate statistical tools in this study:

- (i) There is no significant relationship between the demographic variables and the perception of rural investors towards direct selling channel of mutual fund investment firms
- (ii) There is no significant association between the gender of the respondents with investors' perception towards selling through intermediaries

RESEARCH METHODOLOGY

The study adopted both primary as well as secondary data. The primary data was collected through questionnaire, which consisted of two parts. Part one pertains to the general information about the respondents seeking their demographic characteristics and part two attempted to draw responses on the perception of rural investors towards the various marketing strategies. A pilot study was conducted among 25 respondents. The researcher also circulated the questionnaire among various industry experts and academicians. The comments and suggestions received were incorporated into the questionnaire and refined. The list of investors from the three rural areas was obtained from the financial intermediaries, those who were ready to share the investor database. A sample of 200 was selected through simple random sampling adopting lottery technique. Secondary data was obtained from the official websites of AMFI & SEBI. Appropriate statistical tools like percentage analysis, chi-square analysis and Analysis of Variance (ANOVA) were applied to analyse the collected data.

RESULTS & DISCUSSION

TABLE 1: DEMOGRAPHIC CLASSIFICATION OF RESPONDENTS

| Demographic variables | Classification | | | | |
|-------------------------|----------------|------------------|-----------------|---------------|---------------------|
| Gender | Male | | | Female | |
| | 147 (73.5%) | | | 53 (26.5%) | |
| Age (in years) | Less than 25 | 25 – 35 | 35 – 45 | 45 – 55 | Above 55 |
| | 8 (4%) | 38 (19%) | 82 (41%) | 22 (11%) | 50 (25%) |
| Marital status | Married | Unmarried | Divorced | Widowed | |
| | 58 (29%) | 48 (24%) | 8 (4%) | 86 (43%) | |
| Education | Schooling | Under graduation | Post graduation | Professional | others |
| | 84 (42%) | 63 (31.5%) | 22 (11%) | 11 (5.5%) | 20 (10%) |
| Employment status | Salaried | Business | Professional | Agriculturist | Retired Unemployed |
| | 62 (31%) | 23 (11.5%) | 4 (2%) | 85 (42.5%) | 3 (1.5%) 23 (11.5%) |
| Monthly income (in Rs.) | Below 10000 | 10000 – 20000 | 20000 – 30000 | 30000 – 40000 | Above 40000 |
| | 93 (46.5%) | 67 (33.5%) | 22 (11%) | 12 (6%) | 6 (3%) |

Source: Primary data

Table 1 depicts that majority of the respondents were male (73.5%). Most of the respondents belong to the category of 35 to 45 years, 86% of the respondents were widowed, and majority (84%) come under schooling category. 85% of the respondents were agriculturists and 93% receive monthly income less than Rs.10000.

TABLE 2: INVESTORS' PERCEPTION TOWARDS DISTRIBUTION CHANNELS

| Distribution channel | Poor | Bad | Fair | Good | Excellent |
|--------------------------------|------------|----------|----------|----------|------------|
| Direct selling | 96 (48%) | 12 (6%) | 8 (4%) | 52 (26%) | 32 (16%) |
| Selling through intermediaries | 38 (19%) | 18 (9%) | 1 (0.5%) | 44 (22%) | 99 (49.5%) |
| Joint calls | 99 (49.5%) | 72 (36%) | 4 (2%) | 12 (6%) | 13 (6.5%) |

Source: Primary data

TABLE 3: CROSS TABULATION BETWEEN GENDER AND INVESTORS' PERCEPTION TOWARDS DIRECT SELLING STRATEGY

| Gender | Direct selling | | | | | Total |
|--------|----------------|-----|------|------|-----------|-------|
| | Poor | Bad | Good | Fair | Excellent | |
| Male | 65 | 11 | 8 | 33 | 30 | 147 |
| Female | 31 | 1 | 0 | 19 | 2 | 53 |
| Total | 96 | 12 | 8 | 52 | 32 | 200 |

Source: Primary data

The table above shows that among 147 male respondents, 65 perceived direct selling strategies to be poor, 33 as fair, 30 as excellent, 11 as bad and only 8 as good. It could also be inferred that among 53 female respondents, 31 perceived it as poor, 19 as fair, 2 as excellent and 1 as bad.

INVESTORS' PERCEPTION TOWARDS DIRECT SELLING

In order to examine the formulated null hypothesis, chi-square test was employed. The computed results are given in Table 4.

Hypothesis 1: There is no significant relationship between the demographic profile of the respondents and their perception towards direct selling

TABLE 4: CHI-SQUARE TEST BETWEEN GENDER AND INVESTORS' PERCEPTION TOWARDS DIRECT SELLING

| Demographic factors | d.f | Chi-square value | P value | Inference (5% significance level) |
|---------------------|-----|------------------|---------|-----------------------------------|
| Gender | 4 | 6.668 | 0.155 | Insignificant |
| Age | 16 | 47.388 | 0.000 | Significant |
| Marital status | 12 | 48.073 | 0.000 | Significant |
| Education | 16 | 77.307 | 0.000 | Significant |
| Employment status | 20 | 100.942 | 0.000 | Significant |
| Monthly income | 16 | 41.252 | 0.001 | Significant |

It could be inferred from the table 4 from above that other than gender, all the other demographic variables have insignificant relationship with investors' perception towards direct selling channel of mutual fund investment firms.

ANALYSIS OF VARIANCE (ANOVA)

Analysis of Variance is conducted to understand whether the differences are significant or not with respect to the demographic variable gender with their perception towards selling through intermediaries.

Hypothesis 2: The perception of investors towards selling through intermediaries does not vary with gender

TABLE 5: ONE WAY ANOVA BETWEEN GENDER OF THE RESPONDENTS AND INVESTORS' PERCEPTION TOWARDS SELLING THROUGH INTERMEDIARIES

| | Source of variation | Sum of Squares | df | Mean Square | F | Sig |
|---|---------------------|----------------|-----|-------------|-------|-------|
| I hold good perception towards selling of mutual funds through intermediaries | Between groups | 0.867 | 4 | 217 | 1.359 | 0.248 |
| | Within groups | 59.173 | 371 | 159 | | |
| | Total | 60.040 | 375 | | | |

It is obvious from the table above that there is no significant difference ($\text{sig} = 0.248$) in perception of respondents towards selling through intermediaries among different gender of the respondents at 5% level. This finding indicates that the perception among the rural investors towards selling through intermediaries do not vary with their gender at 5%.

FINDINGS OF THE STUDY

The study is conducted to analyze the perception of investors towards the three distribution channel viz. direct selling, selling through intermediaries & joint calls. It is found that most of the rural investors perceive selling through intermediaries as excellent. The study also found that other than gender, all the other demographic variables have insignificant relationship with investors' perception towards direct selling channel of mutual fund investment firms. From ANOVA, the present study determined that rural investors' perception towards selling through intermediaries not varies between different genders of the respondents.

RECOMMENDATIONS

On the basis of the findings of the study, the following recommendations are put forth to the investment advisory firms, regulatory authorities & the government:

1. Since the investors hold very poor perception towards the direct selling channel of the investment advisory firms, measures need to be taken to redesign the same. At present the mutual fund companies those sell through online and through their company personnel, may have to think of rebuilding a new team of personnel trained with suitable selling techniques
2. Although selling through intermediaries is found to have welcomed by the investors, there are chance for misguiding the investors by those intermediaries, who work for incentives. In order to build investor confidence in the semi-urban and rural areas, the regulatory authorities AMFI & SEBI, need to tighten rules of the code of conduct of the brokers, agents and other intermediaries. This may protect investors misguided by intermediaries interested in pure incentives
3. Appropriate education programmes need to be organized by the regulatory authorities and investment advisory firms, in the reachable areas for the rural investors, to create awareness towards mutual funds and to boost up their confidence and morale. The education programmes so organized need to be conducted with good attendance. The attendance for the programmes can be achieved through proper advance communication and interest kindling among the rural investors
4. The government and the regulatory authorities need to rethink and redesign the existing distribution network, by including new forms of electronic communication i.e. mobiles, selling through India post offices, nationalized banks & fair price shops. Since these mode have greatest reach in the semi-urban and rural areas, and also the rural people have higher confidence in the words of the post office, banks and fair price shops, these channels can be used for selling mutual funds

CONCLUSION

The present study is an attempt to determine the perception of rural investors towards the various distribution channels at present followed by the mutual fund investment firms. Mutual funds are a greatest source of economic development by way of channelizing the savings of numerable investors towards productive investment avenues. If this industry is redesigned with newer and better modes of distribution channels, the industry can wear a new face among the public which paves way for the expansion of the industry in the rural segment.

LIMITATIONS

The study is conducted among only three rural areas in Madurai. The results of the study are applicable only to B15 cities in India and cannot be generalized to T15 cities. The researcher found difficult to collect rural investor database from the financial intermediaries, since many were not willing to supply the same for the research purpose.

DIRECTIONS FOR FURTHER RESEARCH

Further research can be conducted on the reach of mutual funds through new forms of electronic communication. It is also needed to undertake researches specifically focusing on the investor education programmes and its effectiveness to identify new ways of programme conduction. Researches may also be carried out on the ways of confidence building among the present and prospective investors.

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