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Factors affecting mutual fund investors in India: A review

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Abstract

This study identified different factors which are motivating investors to invest in mutual fund and factors which are discouraging them not to invest in mutual fund. This study considered 20 research papers and mostly researchers have used one way ANOVA and Regression Analysis to find out important factors. There are various factors identified through this study like Tax benefit, Past performance, advisor effect, risk involved are major factors which are motivating them and factors like lack of knowledge and awareness, negative feedback by friends and relatives, Lack of procedural clarity, High risk, Difficulty in selecting the mutual fund scheme, Ineffective management of fund manager, improper regulation and Lack of proper grievance redressal system and behavior of investors are discouraging the investors to invest in mutual fund. This study suggests recommendations for the mutual fund companies and suggestions for future research.

Keywords: ANOVA, regression analysis, past performance, mutual fund, tax benefit

Introduction

Financial markets play a vital role in the economic development of a country. They facilitate the allocation of scarce resources by transferring them from savers to borrowers, thereby accelerating investment activities in the economy.

One of the most popular financial investments is mutual funds, which pool the savings of a large number of investors who share a common financial goal based on trust. The money thus collected is invested in capital market instruments such as shares, debentures and other securities. Investors get the number of units based on the amount invested and the net asset value of the units. The income earned is shared among the investors in proportion to the number of units held by them. A mutual fund is an investment that suits the needs of the common man. It is an indirect form of investment in the capital market that has the advantages of diversification, professional management, low-cost investment, Liquidity and tax benefit. The primary objective is to provide better returns to the investor by minimizing the risk associated with capital markets. The most common features of mutual fund units are low unit cost. The first mutual fund in India was launched by the Unit Trust of India (UTI) in the mid-1960s, and since then, mutual funds have come a long way as an investment

option.

The history of the mutual fund industry in India can be divided into four phases. The first phase (1964-1987) began with the establishment of the UTI in 1963. Set up by the Reserve Bank of India (RBI), the UTI also functioned under its regulatory and administrative control. The first scheme of the UTI was launched in 1964. At the end of 1988, the UTI had assets worth ` 670,000 million under its management. The second phase (1987-1993) saw the entry of the public sector, mutual funds set up by public sector banks, Life Insurance Corporation (LIC), as well as the General Insurance Corporation (GIC). At the end of 1993, the mutual fund industry had assets of ` 470,040 million under its management. During the third phase (1993-2003), the private sector funds entered the fray in 1993. The erstwhile Kothari Pioneer (now merged with Franklin Templeton) was the first private sector mutual fund registered in July 1993. At the end of January 2003, there were 33 mutual funds with total assets of ` 1,218,050 million. The fourth phase (since February 2003) began with the repeal of the UTI Act 1963 in February 2003. The UTI was bifurcated into two separate entities:

1. The specified undertaking of the UTI, with assets of ` 298,350 million under its management as at the end of January 2003, representing broadly, the assets of US 64

scheme, assured return and certain other schemes.

2. The UTI mutual fund, sponsored by the State Bank of India (SBI), Punjab National Bank (PNB).

Bank of Baroda (BOB) and LIC. It is registered with the Securities and Exchange Board of India (SEBI) and functions under the Mutual Fund Regulations. With the bifurcation of the erstwhile UTI, which had more than ` 76,000 million of assets under management in March 2000 and with the setting up of UTI mutual fund and with recent mergers taking place among different private sector funds, the industry has entered current phase of consolidation and growth. At the end of March 2008, there were 33 mutual funds, which managed assets of ` 505,152 million.

There are now three types of mutual fund schemes

1. By structure—open-ended schemes, close-ended schemes and interval schemes.
2. By investment objective—growth schemes, income schemes, balanced schemes and money market schemes.
3. By other features tax saving schemes and special schemes (index schemes and sector specified schemes).

Mutual funds are designed to provide maximum benefit to the investors. The fund manager has a research team to achieve the objectives of the scheme. A mutual fund has the following advantages:

1. The investment is in a well-diversified portfolio of securities, irrespective of whether the amount invested is big or small.
2. As the investment is in a diversified portfolio of securities, the associated risk is less compared to merely investing in two or three securities. If some of the securities of the portfolio react negatively due to some economic or political factors, others will react positively. Thus, the overall effect of risk is much less in mutual fund compared to portfolios managed by individual investors.
3. The funds are managed by fund managers who undertake a lot of research and have better investment management skills than individual investors.
4. Mutual funds are far more liquid than shares, as they can be redeemed easily and quickly.
5. By virtue of having large volume, mutual funds have lower transaction cost, the benefit of which is passed on to the investors.
6. As required by the regulator, mutual funds provide investors with updated information pertaining to the market and schemes, thereby providing transparency.
6. The interests of mutual fund investors are regulated, as all funds are registered with SEBI, which enforces complete transparency.
7. Mutual funds offer a lot of flexibility and convenience, as investors can easily switch schemes and their options.

However, mutual funds also have some disadvantages

1. Investors do not have a say in the decision-making process of a fund manager, which may come in the way of achieving the investor's financial objectives. Moreover, information gathering is costly, and brokers

or the agents often do not disclose all relevant information about the investment at the time of purchase.

2. Irrespective of the performance of the fund, investors have to pay investment management fees and fund distribution costs as a proportion of the value of investment as long as they hold the unit.
3. Mutual funds offer much less in return as compared to direct investment in the capital market.

Objectives of the study

The primarily objectives of the study are

To identify different factors which are motivating investors to invest in mutual fund.

To identify different factors which are demotivating investors not to invest in mutual fund.

Literature review

Large numbers of studies conducted in India covering different aspects of mutual fund

Arathy *et al.* (2015) ^[1] analyzes the factors influencing investments decisions of retail investors in Mutual funds. Study was conducted in Ernakulam and Trivandrum, Kerala. this study tells that Tax benefit, return potential, liquidity, low cost and transparency are the major factors that motivate a retail investor to invest in mutual fund. This is supported by Chawla (2014) ^[2], who found that tax-saving funds and growth funds with capital appreciation are the important considerations for investors in a mutual fund. Chaitra and Suman explored factors influencing the investors to invest in mutual fund schemes as documented in existing surveyed literatures and supported the above findings that tax benefit, low cost affect the mutual fund investment and this study also revealed some other factors like past performance, knowledge of the investors, rating of fund, advises given by brokers and agents market conditions all these factors influenced the investors to select mutual fund investment Velmurugan and Vijai Anand (2015) ^[4] in their study in Chennai metro city also supported that the most influencing factors are past performance of the funds, type of fund affect investors decision. Some other factors influence investment decision of the investor they are, scheme of portfolio, reputation of fund manager, dividend history of the funds and prompt settlement. Neelima and Rao (2016) ^[9] in their study "Factors Influencing Investors In Mutual Funds Selection" in tirupati are of the view that the product qualities, fund sponsor qualities and investor services are important and Suggested that companies should build quality schemes to meet the expectations of the investors. Companies should develop their image by securing identity, recognition and strengthen relations with investors through information disclosure approaches. Keswani, S., & Wadhwa, B. (2019) ^[15]. studied the interdependency between income and investment pattern. For this objective, data was collected from 218 investors through self-structured questionnaire to know the behavior of investors for using their deposible income. Chi square test was applied. It was found that interdependency exist between shares, postal savings, real estate, mutual fund, insurance and income groups. And there is no significant interdependency exist between income and investment pattern i.e. bank deposits, metal and PPF.

Rajesh and Nitin (2014) evaluated Type of schemes of mutual funds preferred by investors and Purpose behind making investment in mutual fund which states that Growth is the most important objectives while making investment by investors in mutual funds followed by regular income and liquidity at second and third place. It was found that Private Sector mutual funds got preference over public sector mutual funds. Majority of the investors were satisfied with the performance of their mutual funds and majority of them want to invest private sector mutual funds. Prospectus/Newsletters have been the most important source used by the investors while making investment followed by brokers and sub-brokers. Joshi, J. R. (2013) ^[17]. Evaluated investor's view about the investment preference and motivational factors, for mutual funds and found that Diversification of portfolio, higher liquidity and low level of risk were the top most factors that motivate investors to invest in mutual fund

Chawla (2014) ^[2] examines various attributes that investors consider important while investing in mutual fund. This is done by using factor analysis and one way ANOVA. The result is that two factors are considered important by investors while investing in mutual funds are credibility of fund and miscellaneous features of fund and he also states that the general public, business people and employees of public sector and government attach a lot of importance to the credibility of the fund and the second factor, namely, the miscellaneous features of the fund, is considered important by younger, unmarried people. This factor comprises of variables like entry and exit load, add-ons provided by the funds, lock-in period of the closed-ended funds and tax benefits available on mutual funds.

This shows that different investors are affected by different mutual fund factors. Pooja and Majhar (2018) ^[3] advocated that the investors with different categories, gambling, cautious, and rational have different choice of investment objective while making an investment in mutual fund. All the investment objective will have different parameter for different kind of investor. Similar views are supported by Sajahan (2014), who states that the investors are classified into three groups on the basis of their information sources namely Ranking-driven investors (RDI), Active Information Investors (AII) and Adviser-influenced Investors (ADI). These three groups of investors differ regarding their perception on variables influencing the investment on mutual funds. The important factor identified by the ranking-driven investors is capital gain and savings, the active information investors these two factors are gain and motivation, the important factors identified by the adviser influenced investors are income and liquidity. Gill *et al.* (2011) ^[14] also supported by stating that, investment advisors must treat each investor differently based on the age, gender, and individual situation. In addition, the investment advisors must understand the gender differences in India.

Bala Subramanian (2019) ^[12] found that the study found out that awareness level of investors are quite low as they have only a partial knowledge about mutual fund. The investor gives more preference to the low risk factor while investing. Hassan *et al.* (2018) ^[18] also supported that risk affects the mutual fund investment.

The relative importance of various factors like past

performance of mutual funds and tax benefit are used by investors as criteria in investment in mutual funds. Past performance is given due consideration in the work of Chawla (2014) ^[2], Hassan *et al.* (2018) ^[18], Chaitra and suman, Velmurugan, Vijai Anand (2015) ^[4] and Joshi, J. R. (2013) ^[17]. Tax benefit found to be an important consideration in the work of Arathy *et al.* (2015) ^[1], Chaitra and Chawla (2014) ^[2] and Joshi, J. R. (2013) ^[17].

Kavita and Pasricha (2017) ^[8] examines the interaction between mutual funds market and various macroeconomic variables using 15 years of annual data spanning from April 2000 to March 2015. This study observed that the Mutual fund flows are not considerably influenced by the variables, that is, Consumer price Index, Gross Domestic Savings, Exchange rate, growth rate, interest rate and nifty returns. This indicates that there are certain other macroeconomic factors that have an influence on the investments of mutual funds.

This is supported by Bhayani and Patankar (2008) ^[10] who found that Expert advice, information about government regulation and guidance from financial advisor are the steps which may motivate the people to invest in mutual funds.

Gill *et al.* (2011) ^[14] are of the view that they seek consultants' advice before investing in equity funds. Thus, Indian investors can be considered conservative investors and Indian investors seek older family members' advice before investing money in the equity funds. The male and female investors may not have same intensity to seek investment consultant's advice. Hassan *et al.* (2018) ^[18] concluded that role of financial advisors has to be strengthened and examined important factors that are considered by the financial advisors in the Indian context are the Type of Portfolio, the Type of Fund, the Past Performance of a mutual fund, the Risk associated with it, Brand equity of a fund and the Current market conditions. The advisors believe the presence of optimistic conditions are conducive for the better returns on fund investments. If the brand equity for a particular fund is high, the advisors perceive such funds as the mouth-watering ones. On the other hand, Deacon (2014) explained detailed comparison of the perceptions by individual consumers and expert financial advisers of the investment risk involved in financial services' products. Factor similarity tests show that there are significant differences between expert and investors in the way financial risks are perceived. Financial experts are likely to be less loss averse than investors, but are prone to affiliation bias, trusting providers and salesmen more than lay investors do, believe that the products are less complex, and are less cynical and distrustful about the protection provided by the regulators.

There are certain factors which demotivate the investors to invest in mutual fund. Chaitra and Chakraborty (2017) ^[6] revealed that inflation and deflation in the market, current political situations, family commitments, non-fulfillment of financial goals are the factors which influenced the investors to withdraw from the mutual funds. Bhayani and Patankar (2008) ^[10] study the demand side factors responsible for low penetration of mutual funds amongst individual investors in Nasik district and compared opinion of urban and rural mutual fund non investors and found that 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. Sharma, D.P. (2014) ^[13] and Joshi, J. R. (2013) ^[17], also supported this by stating that investors investing decision is based on the risk involved and lack of knowledge and availability of information and difficulty in selecting the mutual fund scheme from the different of schemes. On the other hand, Vyas (2013) ^[11] advocated major reasons that induces the investor to quit from mutual fund and that include low returns and slow growth of fund, poor controlling and improper regulation, ineffective management of fund-by-fund manager and lack of proper grievance redressal system. Pooja and Majhar (2018) ^[3] concluded that any objective which is selected by a respondent with cautious attitude may be rejected by a respondent with rational and gambling

attitude investor. Hence again we can say that every investor having a different investment objective because every investor has different attitude (Gambling, Rational, Cautious) having the different risk-taking capacity and also having the different choice of investment objective.

Results

This study found some factors which affect the mutual fund investment. Tax benefit, Past performance Liquidity, level of Risk involved affects mutual fund investment. This study also revealed that knowledge and Awareness level of investor, advises given by advisors and brokers and some macroeconomic factors affects their level of investment and mostly investors prefer private mutual funds over public mutual funds. This study also found that different factors are affecting different kind of investors differently based on age, gender and individual situation.

AUTHOR	Findings
Arathy <i>et al.</i> (2015) ^[1]	The major effectors that drive a retail backer to put in mutual funds are tax benefits, return prospects, liquidity, low cost, and clarity.
Chawla (2014) ^[2]	observed that tax-saver funds and development funds with capital appreciation are the most significant factors for mutual fund investors. When it comes to investing in mutual funds, two things are significant to investors: fund reputation and fund characteristics.
Chaitra and Suman (2017) ^[6]	tax benefits and low costs influence mutual fund investing, as well as other factors such as past success, investor experience, fund ranking, and broker and agent advice, market conditions
Anand (2015) ^[4]	Found that the most influencing factors are the funds' past success and the type of fund. Other factors that affect an investor's investment decision include the portfolio's structure, the fund manager's credibility, the funds' dividend history
Neelima and Rao (2016) ^[9]	Suggested that organizations should construct quality plans to meet the assumptions for the financial backers.
Rajesh and Nitin (2014)	Examined reasoning that development is the main objective for financial backers when putting resources into mutual funds. and Investors have relied on prospectuses /newsletters the most when making investment decisions, led by brokers and sub-brokers.
Joshi (2013) ^[17]	it was discovered that portfolio diversification, greater liquidity, and a low degree of risk were the most important factors motivating investors to invest in mutual funds.
Subramanian (2019) ^[12]	Suggested that awareness about mutual fund and risk influence the mutual fund investment.
Chawla (2014) ^[2] , Hassan <i>et al.</i> (2018) ^[18] , Chaitra and Suman (2017) ^[6] , Velmurugan, Vijai Anand (2015) ^[4] , and Joshi (2013) ^[17]	Past success is taken into account.
Arathy <i>et al.</i> (2015) ^[1] , Chaitra and suman, Chawla (2014) ^[2] and Joshi (2013) ^[17] .	Tax benefit found to be an important consideration
Kavita and Pasricha (2017) ^[8] and Bhayani and Patankar (2008) ^[10]	Considered macroeconomic factors influence mutual fund investment.
Gill <i>et al.</i> (2011) ^[14] .	Concluded that prior to putting resources into mutual funds, financial backers can look for direction from experts
Hassan <i>et al.</i> (2018) ^[18]	Concluded that the position of financial advisors should be improved and investigated important factors that are regarded by financial advisors are Type of Portfolio, Type of Investment, Past Performance of a Mutual Fund, Risk associated with it, Brand equity of a Fund, and Current Market Conditions.

This study also identified some factors which negatively affects the mutual fund investment like negative feedback by friends and relatives, Lack of procedural clarity, High risk, Lack of Awareness, Difficulty in selecting the mutual fund scheme, Ineffective management of fund manager, improper regulation and Lack of proper grievance redressal system and behaviour of investors also depends on their attitude like gambling, rational and cautious have different risk taking capacity and investment objective.

Research Gap

The result of this study opens new direction for future

research. Even though several researches have been done to measure the important factors which are affecting mutual fund investment. but mostly researches have been conducted in southern and western part of India so further researches needs to be done in eastern and northern part of India. Researches were done on what factors is affecting mutual fund investment but very few researches have analyzed the effect of age and gender on mutual fund investment, Hence there is a huge research gap in all the literature reviews. Further studies needs to be done to analyze the investor's behavior of different age and gender on mutual fund investment.

Conclusion

This study has successfully identified both motivating and discouraging factors influencing investors' decisions to invest in mutual funds. On the positive side, factors like tax benefits, past performance, liquidity, and professional advice serve as strong motivators for investors. Additionally, the growing preference for private mutual funds over public ones is notable, driven by perceptions of better performance and management.

Conversely, discouraging factors such as high perceived risks, lack of awareness, procedural complexity, and ineffective fund management significantly deter potential investors. Negative feedback from peers and lack of a clear grievance redressal system further exacerbate the hesitancy toward mutual fund investment.

The research highlights that investors' decisions vary significantly based on age, gender, and individual financial circumstances, with younger and more risk-averse individuals seeking expert advice before investing. There is also a clear need for mutual fund companies to focus on enhancing investor education, simplifying processes, and improving fund management to attract a broader base of investors.

Finally, future research should address the regional gap by studying investors from northern and eastern India and analyzing the distinct roles age and gender play in mutual fund investment behavior. This will provide a more comprehensive understanding of investor behavior across the country.

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