CHAPTER 7

Conclusion, Policy Implications and Future

Direction of Research

In this chapter we briefly review the findings of the present study with a view to further thinking in this area. The chapter is organized as follows. Section 7.1 presents the major findings of the study. Suggested area of policy actions are discussed in the section 7.2. Finally in section 7.3 the limitations of the study and the direction of future research are discussed.

7.1 Major Findings of the Study

The major findings of the study are as follows:

(7.1.1) There exists significant difference in the width and depth of information search and information processing by high PPR mutual fund investors and low PPR mutual fund investors. Specifically, study finds that (i) during information search high PPR mutual fund investors use less number of information sources and they rely more on personal formal source of information like sales agent rather than impersonal source (e.g.
financial portal); and (ii) during information processing high PPR mutual fund investors use less number of attributes information to compare MF schemes and engage in less depth of information processing in comparison to low PPR mutual fund investors. Based on the above findings we conclude that MF investors’ high level of PPR impedes active information search and processing by them and motivates them to depend more on distribution channels for investment advice during investment in MF schemes. We suggest that the behaviour of high PPR mutual fund investors might explain for the ‘distribution centric’ nature of MF industry in India.

(7.1.2) Contrary to the popular belief that objective knowledge (i.e. what is actually stored in memory) and subjective knowledge (i.e. what individual perceive they know) differently impact information search and information processing behaviour, this study suggests no significant difference in the impact of objective knowledge (OK) and subjective knowledge (SK) on the width and depth of information search and information processing. The findings of the study suggest that OK and SK significantly positively impact the width and depth of information search and information processing behaviour; however, no significant difference exists in the way they impact the behaviour. The possible explanation put forward is that even though MF investors may suffer from self deception (i.e. pseudo expertise) and report
high knowledge (i.e. high SK), the impact of SK on actual investment behaviour is not significantly different from that of OK.

(7.1.3) The level of PDI significantly predicted the investment behaviour of MF investors. The results suggest significant difference in the width and depth of information search and information processing by low PDI MF investors and high PDI MF investors. Specifically, it is found that (i) during information search low PDI mutual fund investors are likely to use less number of information source to collect information, rely less on source providing detailed information related to MF schemes (for example financial portal etc.) and perceive banks as more credible source of investment advice in comparison to high PDI MF investors; and (ii) during information processing low PDI mutual fund investors are likely to use information on less number of attributes to compare MF schemes, do not process MF schemes related attribute information in details in comparison to high PDI mutual fund investors.

(7.1.4) A comprehensive model on the investment behaviour of MF investor is proposed to explain the combined effect of subjective knowledge (SK), perceived purchase risk (PPR) and purchase decision involvement (PDI) on their prepurchase information search and processing behaviour. Specifically, the model suggests that; (i) MF investors SK negatively impact investors
perceived purchase risk with MF purchase, (ii) MF investors’ SK positively impact PDI, (iii) MF investors PPR negatively impact PDI, (iii) MF investors PDI positively impact their depth of information search and information processing behaviour and (iv) MF investors’ depth of information search positively impacts depth of information processing behaviour. The proposed model is empirically validated by studying the investment behaviour of a sample of MF investors. The results of the study significantly support the hypothesized relationship of the model. The overall model was also found to adequately fit the data. Based on the empirical investigation following conclusion is drawn from the study: First, investors’ having high confidence in their knowledge (high SK) related to MF investment decisions will perceive MF as less risky and is motivated to actively engage in MF investment decision (high level of PDI). This may be due to one of the following reasons; (i) MF investors’ level of objective knowledge is also high due to exposure to domain knowledge (Alba and Hutchinson, 2000) or prior experience (Schmidt and Spreng, 1996) of purchase of MFs, which makes them feel that they have control on the purchase risk associated with MF; (ii) MF investors’ are over confident of their information search and processing ability and their ability to control the risk associated with MF purchase (Tapia and Yermo, 2007). Second, investors having low confidence in their knowledge (low SK) related to MF investment decision will perceive MF as more risky and is motivated to
remain passive during MF investment decision (low PDI). This behaviour will be manifested in the low depth of information search and information processing by these categories of investors. Hence they will use few specific information sources on which they rely upon. Further, rather than engaging in extensive processing of attribute information related to MFs, they will rely on few attributes which they will use as cues (decision heuristics) as an indicator of the quality of MFs (Dawar & Parker, 1994; Tapia and Yermo, 2007).

7.2 Suggested Areas of Policy Action

The findings of this study are useful for MF companies (MFCs) and the regulators of MF industry. The policy implications emanating from the thesis are discussed as follows. First the implications of this study for MFCs are discussed. Next, the policy implications for the regulators of MF industry are discussed.

7.2.1 Policy implications for MFCs

(7.2.1.1) This study suggests that investors PDI mediate the influence of investors’ subjective knowledge and perceived purchase risk on their
investment behaviour. Further, the study suggests that investors’ subjective knowledge (which represents investor’s confidence on her ability to make MF investment decision) negatively influence the extent of risk investor attach to the MFs. (i.e. perceived purchase risk) and positively influence the motivation to engage in purchase decision (i.e. purchase decision involvement). Hence MF marketers should carve different marketing strategy for passive investors of MFs (investors with low SK, high PPR and low PDI) and active investors of MFs (investors with high SK, low PPR and high PDI).

Passive investors have following characteristics; (i) engage less in information search and rely on few specific source for investment advice; (ii) consider distribution channel as reliable source of information; (iii) engage in less extensive processing of MF attribute information; (iv) likely to use mental shortcuts (i.e. rule of thumb) to evaluate and select MFs for example historical performance of funds (Benartzi and Thaler, 2001; Huberman and Jiang, 2006); and (v) is likely to show a preference towards default funds/index funds. Hence the above characteristic of these investors may be effectively used to design and promote the MFs. Specifically, MF companies should promote index fund among these categories of investors. MF companies can also design innovative ‘default funds’, like teachers specific fund directed towards academicians, doctor specific fund directed towards
doctors etc to tap these categories of investors. Further, MF companies should effectively use their distribution channel to promote their funds among these categories of investors. Finally, advertisement can be more effectively targeted towards these investors rather than active investors where the role of advertisement is somewhat limited.

Active investors have following characteristics; (i) engage extensively for information search and rely on multiple sources of information; and (ii) engage in extensive information processing and use multiple attribute information to compare MFs. As these categories of MF investor use large number of attributes information, they are likely to restrict their attention to fewer number of brands during the choice of a MF (i.e. will use brand by brand comparison) (Powell and Ansic, 1997). Hence those MFs/companies which are part of the consideration set will have more probability for being selected in comparison to those which are not. Hence while targeting these categories of MF investors MFCs faces a challenge to be among the top four or five names so that they become the part of the consideration set of these categories of MF investors. Active investors, if engaged in the promotion of MFs, will effectively help MFCs in promoting their funds.

(7.2.1.2) This study suggests that distribution channels in general and MF sales agent in particular plays a significant role in shaping the investment
behaviour of high PPR mutual fund investors. This may be due to the fact that high PPR mutual fund investors are those who feel less confident to engage actively in information search and processing. Hence to reduce the risk of poor decision they rely more on the advice of those whom they consider trustworthy and competent even though this may be an illusion of “risk shifting” for them. Hence the role of distributors of MF schemes (like sales agent, banks, brokers) as source of investment advice is crucial. Hence in future also MF marketers are expected to use their distribution channels to effectively tap this category of MF investors.

(7.2.1.3) The study suggests that low PDI MF investors extensively use bank as a source of investment advice. The above findings have significant importance for banks. Low PDI MF investors can be persuaded by banks through effective investor relation strategy using their asset management desk. The recent development in the MF industry in India is consistent with our findings as banks are emerging as prominent distribution channel to sell financial products in general and MF schemes in particular to the individual investors.

(7.2.1.4) The study provides that the nature of information looked in by the low PDI MF investors and high PDI MF investors are different. For example low PDI MF investors will rely less on extensive information search with
very little or no analysis of attributes information and primarily use recommendations from others (like banks, brokers, MF agents etc.) to select MF schemes. This behaviour of low PDI MF investors can facilitate investor relation functions of MFCs. This may be particularly of greater importance for low/ moderate performing MF schemes/ companies as they can effectively use distribution channels to promote their new and existing schemes by targeting them towards low PDI MFs investors. Apart from the use of distribution channel to promote their MF schemes, these MFCs can also leverage on their brand awareness to tap these categories of MF investors.

(7.2.1.5) Investors with high SK can themselves act as a source of information. MFCs can explore the role of these investors’ in their sales/ communication strategy. Further aligning company communication strategy with investor’s source requirement will effectively supplement sales strategy.

7.2.2 Policy Implications for regulators

(7.2.2.1) The study suggests that in order the improve the quality of decision of active MF investors (investors with high SK), regulators and policy makers should have a check the information overload. There is empirical evidence suggesting the notion that large number of investment options can
cause information overload (Tapia and Yermo, 2007). Hence, MF companies should be discouraged to introduce “new fund offer” which is similar to the existing schemes of the MF company.

(7.2.2.2) The study provides that investors with low SK perceive high risk in MF purchase and will remain passive during investment decision making process (low PDI). It has been found that those investors who feel less confident to engage actively in information search and processing are the one who rely more on the distribution channels for investment advice. However, there is adequate empirical evidence to doubt the quality of financial advice provided by these professional due to conflict in the objective of investors and advisor (Mahoney, 2004), lack of knowledge of advisor (Minimum common standard for financial advisors and financial education: A consultation paper⁸⁰), and disparity in the definition of “low risk” between investor and advisor (Conquest Research Limited, 2004). Hence policy makers and regulators of MF industry have to work on the twin objective; at one end, increasing the knowledge of advisors through effective training and certification program for them and at the other end encouraging investors to actively engage in investment decision through comprehensive financial education strategy, reducing ambiguity surrounding MF products and

effective communication mechanism so that investors are rightly able to appreciate the risk associated with individual MF products. Simultaneously, regulators are also required to enhance the transparency in the MF industry and put a check on mis-selling.

(7.2.2.3) The study supports the notion that low SK leads to high PPR among MF investors, which reduces the motivation of investor to actively engage in purchase decision (low PDI) and make him over reliance on distribution channels for investment advice. The above behaviour of investors might explain for the ‘distribution centric’ nature of MF industry in India. In order to make MF industry ‘investor centric’, governments and regulatory agencies in India will have to intervene. This is not going to happen until unless there is adequate motivation/ compulsion for the industry to do so. It is proposed that regulators are required to work on two fold objectives. First, as suggested earlier, develop an integrated policy framework to educate investors to increase their financial knowledge. Second, constantly focus on making that information accessible to average investors which have its relevance for investment decision. This will reduce the ambiguity surrounding investment product in the market place. This will also help investors better appreciate the risk and return associated with investment decision.
(7.2.2.4) The study provides that knowledge of MF investors significantly impact their investment behaviour particularly information search and processing behaviour by influencing their level of PDI. Hence information need of low knowledgeable and high knowledgeable investors are going to be different. Hence the regulators should encourage differential reporting requirement from the MFCs in order to meet the information need of low knowledgeable as well as high knowledgeable investors during their investment in MF schemes. Hence this study provides empirical support for the need of differential reporting requirement as required by the Security Exchange Board of India (SEBI). Further, the study suggests that the difference in the actual knowledge (OK) and perceived knowledge (SK) will not significantly impact the way investors acquire and process available information. Hence difference in knowledge types (i.e. OK and SK) of MF investor need not to be incorporated into the SEBI’s guidelines regarding the reporting requirements from MF industry.

7.3 Limitations and future direction of research

The findings of the study are constrained by the following limitations. First, the study focuses on the prepurchase information search
behaviour and information processing behaviour of MF investors and the post purchase behaviour of MF investor is not discussed.

Second, depth of information processing behaviour has been discussed with reference to the extent to which each type of attributes information are used by MF investors before/at the time of purchase of MF schemes. However, more insights can be achieved with an understanding of the sequence in which attributes information are used, the number of stages in which the decision is taken and the number of MF schemes considered at various stages of information processing.

Third, post purchase PR of MF investors have been measured in this study. It may be possible that there is a difference in prepurchase PR and post purchase PR due to the effect of purchase on PR of the respondents. A natural expansion of this study is to empirically validate this model on the sample of investors whose prepurchase risk as well as post purchase risk is captured. This will also capture investors post purchase regret which has not been included in this study.

Fourth, the literature suggests that apart from subjective knowledge, perceived purchase risk is also likely to be influenced by demographic variables like age, income, wealth, gender, marital status, personality and
educational attainment (Finke and Huston, 2003; Rajarajan, 2000, 2003). However, the study did not controlled for the effect of other variables on perceived purchase risk due to limitation related to the sample size and nature of respondents. This was also reflected in the squared multiple correlations of the structural equation for perceived purchase risk (i.e. $R^2 = .075$). The above limitation provides the future scope of research in this field.

*Fifth*, the sample selected for the study is through convenience sampling due to non availability of published data on MF investors. Due consideration was given to check the validity and internal consistency of the data however care has to be taken while generalizing upon the results. Further use of random sampling method to select respondents would have further improved the statistical validity of the findings.

*Sixth*, the study is conducted using the respondents from the Jammu region, J&K (India). To further validate the results more study needs to be conducted on the residents of other region, states and countries.

*Seventh*, the study is confined to individual investors of MFs and institutional investors are excluded from the study. Including other categories of investors’ might lead to different behavioural outcome.
Eight, the results of the study imply that MF companies can segment investors on the basis of their level of PDI in order to develop different marketing strategies to attract various categories of investors (i.e. active investors and passive investors). However, there should be a way out to assess whether an investor is high or low on PDI gives rise to a further scope of research in this field. A further study conducted to do the profiling of investors based on their PDI can certainly be useful in doing a proper segmentation of MF investors.

Ninth, the proposed comprehensive model of investment behaviour needs further validation in order to generalize upon the findings. Hence future researcher should test the model with improved constructs and larger population.

Tenth, the proposed investment behaviour model also need to be empirically validated on other investment products to generalize its findings on other products like insurance products, deposits etc.