CHAPTER I

INTRODUCTION

1.1 INTRODUCTION

The Indian capital market has been growing tremendously with the reforms in industrial policy, reforms in public and financial sector, and new economic policies of liberalization, deregulation and restructuring. The Indian economy has opened up and many developments have been taking place in the Indian capital market and money market with the help of financial system and financial institutions or intermediaries which foster savings and channel them to their most efficient institutions or intermediary who has played a significant role in the development and growth of capital markets in Mutual Fund (MF).

In 1963, the Unit Trust of India (UTI) first introduced the mutual fund concept in the country. The growth of the mutual funds in India took place in several phases. In the initial phase (1964-1987), UTI was established. In the second phase (1987-1993), non-UTI and public sector mutual funds made entry into the market. The third phase (1993-2003) saw the advent of private sector funds, providing the investor with ample choice of different fund schemes. This phase also witnessed several mergers and acquisitions in the mutual fund industry and a large inflow of funds by several foreign mutual funds. The fourth phase began in February 2003, marked by the bifurcation of UTI into two separate entities. Presently, mutual fund industry is undergoing consistent expansion coupled with consolidations, and has successfully made inroads into all segments of the capital markets (www.amfiindia.com).

The Indian stock market has come a long way from 8,000 mark to the peak of 14,652 mark. This growth was possible because of the significant contribution of the mutual fund industry. Between August 2005 and August 2006 Assets under management of mutual funds in India grew by 57%, to over Rs.3 lakh crores. As a percentage of GDP, the assets under management of funds started at about 9.5% as against around 60% in developed countries. The year 2006 witnessed several developments in these countries. Some interesting investment options, like Capital protection mutual fund scheme has
emerged to cater to the needs of the risk-averse investors. In equities, FIIs out-purchased mutual funds with a considerable margin and purchased equities worth Rs.42,868 million, ten times more than mutual funds (Rs.4003 million) as on August 30, 2006. Another significant development pertaining to the market regulator, SEBI, did not allow open-ended scheme from charging initial issue expenses from the funds Net Asset Value (NAV) but allowed only the no-load, close-ended scheme to charge initial issue expenses (Arindam Banerjee and Vijay, 2007).

As of now, the Indian mutual funds are allowed to invest in foreign securities. In the recent circular dated January 4, 2007, SEBI allowed mutual funds to invest in the ADRs / GDRs foreign securities with an overall limit of US$3 bn. This will be with a sub-ceiling for the individual mutual funds, which should not exceed 10% of the net assets managed by them as on March 31 of each financial year and subject to a maximum of US$150 per mutual fund. Apart from these developments, the industry has witnessed a flood of new innovative product offerings from the mutual funds to woo the investors. The close-ended funds, sector-specific funds, fund of funds, exchange traded fund, mid-cap funds, fixed maturity plans and arbitrage funds, are some of the new products offered by the mutual funds. During the last ten year period has grown at 22% CAGR. With assets of US$ 125 billion, India ranks 19th and one of the fastest growing countries of the world (Kurian, 2008).

The Mutual fund as an entity is non-tax paying. Investors in mutual fund schemes enjoy certain tax benefits. In case of Debt schemes: The fund pays upfront dividend distribution tax (DDT) @14.1625% for individual and @22.66% for others, before distribution to investors. In case of money market/liquid funds, DDT is payable @28.325%. During the year march 2008 the position of 33 asset management companies, 956 schemes and asset under management 126,225 US $ (Mn).

1.2 STATEMENT OF THE PROBLEM

Financial reforms have great impact not only on Indian financial system but also on Indian economy as a whole. Three sectors of Indian financial system that are greatly influenced and witnessed substantial growth are banking, insurance, mutual fund. During the last decade, these three sectors have seen various developments. Mutual funds
are investment avenues for the investors. Mutual fund is the pool of money of several investors to invest in financial investment such as stock, government securities and debentures. There are various sources of information like Television, internet, newspaper and also All India mutual fund association has published two booklets “Making mutual funds works for you” and “Selling mutual funds made easy”. These two publications will be translated into regional languages and distributed widely (Kavitha Ranganathan, 2006).

To what extent do these sources of information influence the investors? The bankers or agents or financial advisers rendered services like providing knowledge about tax laws, new scheme, sorting out the problem, providing of consultancy. These are essential to strengthen or promote the mutual fund. Are the investors really satisfied with their services? If so, to what extent? Every investor has different investment avenues to invest in. There are some factors such as tax benefits, safety and liquidity, which influence behaviour of investors in selection of mutual fund (Prasada Rao and Vedantam Saikia, 2006). Do these factors influence behaviour of investors in the selection of mutual fund?

Booming stock markets and innovative marketing strategies of mutual fund companies in India are influencing the retail investor to invest their surplus funds in different schemes of mutual fund companies with or without complete understanding of mutual fund. The Securities Exchange Board of India Mutual fund 1993 Act was revised and new regulations were notified in December 1996. The revised SEBI Act 1996 incorporated major points of enhanced level of investor protection, stringent disclosure norms in the offer-document so that investors are better informed, better advised, better aware of risks and rewards and also of accounting standards and policies, empowerment of trustees, sponsors and custodian as frontline regulators of mutual funds.

In the year 1995-96, SEBI circulated and published a paper entitled “Mutual fund 2000” which clearly stated how to improve and regulate the working of mutual fund industry and one of the main aims of “mutual fund 2000” is to make the benefits of mutual fund reach all the segments of investors (it has launched innovative products).

All India Mutual funds Association, an apex body of Asset management company (AMC), a non-profit organisation was established on 22nd August, 1995. The main aim of AMFI is to protect and promote the interests of mutual funds as well as their unit holders. It provides well-qualified and trained agent distributors and conducts the All India
Awareness programme for investors so as to promote proper understanding of the concept and working of mutual funds. AMFI disseminates informations on mutual fund industry and undertakes research quite often and also it recommends the top class business practices and code of conduct. The lack of awareness and understanding have been the main obstacles in achieving growth by mutual fund sector (Raju 2006). The SEBI and AMFI promote the investor education and regulate working of mutual fund industry. These raise several questions. Do mutual fund investors know of the role played by SEBI and AMFI? Are they really aware of their rights as well as protection measures available to them?

In case of investing in mutual fund, investors can approach SEBI for redressal of their complaints. SEBI would take care of the matter and follow up the measures till a problem is solved. What types of grievances do the investors face? To what extent the grievances are solved by SEBI? The study makes an attempt to seek solutions to these questions.

1.3 OBJECTIVES OF THE STUDY

The following are the objectives of the study:

1. To examine investment information seeking behaviour of mutual fund investors
2. To ascertain investment behaviour of investors.
3. To find out the level of awareness of investors and
4. To suggest suitable measures to enhance the level of awareness and to formulate measures to protect the interests of the investors.

1.4 METHODOLOGY

The data required for the study is primary in nature. Questionnaire method has been used in the collection of data.

1.5 SAMPLING

Random sampling method has been followed to choose from the investor list furnished by the mutual fund certified agents as well as the investor forum.
1.6 FRAMEWORK OF ANALYSIS

Data collected from investors have been analysed through (i) ANOVA (ii) Chisquare test (iii) Discriminant Analysis (iv) Factor Analysis (v) Mean and (vi) "t" test.

1.7 SIGNIFICANCE OF THE STUDY

Redressal of grievances of investors is of paramount importance. The results of the study will be of immense use to investors, SEBI, and AMFI. The SEBI would be able to frame policies in such a way that it ensures the protection of investors. Further, the results would also facilitate SEBI and AMFI to undertake a well-designed and comprehensive programme of investor education, particularly aimed at rural investors, whenever necessary.

1.8 LIMITATIONS OF THE STUDY

The present study is confined to mutual fund investors residing in Coimbatore district. The results of the study therefore, may not be applicable to other areas. Generalisation, if made, needs exercise of utmost caution. Further, study relies upon the opinions of investors. The opinions may differ over or period of time.

1.9 CHAPTER SCHEME

The report of study is presented in nine chapters.

The first chapter introduces the theme of the study. The reasons for choosing the present problems are brought out in this chapter.

Chapter two highlights the growth of mutual fund in India. It brings out a detailed account of pre-liberalisation, post-liberalisation in mutual fund, various schemes, mutual fund players in India, net resources in private sector mutual fund and schemewise break up analysis.

Results of studies conducted earlier are briefly summarised in chapter three. Studies on mutual fund as well as investors awareness are reviewed in this chapter.
Chapter four explains the research methodology followed for carrying out the research work. The method of data collection, sampling procedure, purpose of statistical tools used and definition of concepts used in the study are brought out here.

Description of socio economic profile of sample investors is given in chapter five.

In chapter six, "Information seeking behaviour of mutual fund investors" deals with how magazines, newspapers and internet, influence the investors and also with the level of satisfaction of services of investors forum and agents.

Chapter seven deals with investors behaviour and discusses factors that influence while investing in mutual fund, appraisal criteria of mutual fund and preference for different investment avenues.

The level of awareness among mutual fund investors is examined in Chapter Eight. Discussion on factors discriminating regular and non-regular investors is included in this chapter.

A summary of findings forms chapter Nine. Suggestions for improving the level of awareness are also presented in this chapter
REFERENCES


Website:http:/www.amfiindia.com.