

# AN EXAMINATION OF INDIAN MUTUAL FUND INVESTORS' AWARENESS:

A ROADMAP TO IMPROVE  
UNDERSTANDING AND ENGAGEMENT



finalmile.

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## CHAPTER-5

# Purpose of this Study

The purpose of this study is to understand and explain the decision making process of the Indian investor, and design interventions that leverage behavioral science principles that make T.T. Krishnamachari's vision of mutual funds catering to 'those whose means are small' a reality.

As a means to understand investors' understanding, preferences, and action tendencies towards mutual funds we conducted a behavioral science based study:



### IMMERSION

The first phase of the study involved one-on-one in-person discussions with industry stakeholders and investors, followed by a quantitative exercise in order to capture the beliefs, mental models, stated preferences, and context of the Indian investors; 'what' are investor preferences and 'how' are these preferences executed.



### QUANTITATIVE ANALYSIS



### ethnolab<sup>®</sup> QUALITATIVE ANALYSIS

The second phase of this study was a qualitative analysis using FinalMile's award winning proprietary research tool [Ethnolab<sup>TM</sup>]<sup>[27]</sup>, which explains the decision-making process of an investor's engagement with mutual funds; 'why' do investors make these decisions and what are the mental processes guiding their investment decisions.

This study serves as a baseline understanding for how Indians investors view mutual funds and mutual fund advisors. This study sought to answer specific questions that would touch on concerns of all mutual fund stakeholders – government, regulator, manufacturer, distributor, and chiefly the investor. The study methodology that we adopted helped us decode behaviour by exploring the intent-action gap between an investor's stated preferences (quantitative study) with their actual behavior in an immersive setting (qualitative study) in decoding behavior. The quantitative study allowed us to collect responses about a wide range of context features of the Indian investor that later informed the construction of a realistic and immersive environment for the Ethnolab<sup>TM</sup>. We observed action tendencies of investors in a decision making context in real time (hot-state setting).

## Behavioral Science Study : First of its kind

### AN EXAMINATION OF INDIAN MUTUAL FUND AWARENESS A ROADMAP TO IMPROVE UNDERSTANDING AND ENGAGEMENT

#### Executive Summary: Key Insights

- **Engagement Gap** : Barriers to Mutual Fund Investments is the perception that MFs are viewed as
  - Rich man's product/ younger investors reluctant to engage
  - Risky
  - Complicated
  - MF = unfamiliar product
  - Need for intermediation (advisor)
  - Existing Advice gap
- **Global experiences:** non-embedded products & **advice gap** in UK, Australia, Netherlands (advice gap = investors who invest without guidance who would have otherwise sought advice)
  - Non-embedded products triggered advice gap in UK
  - Huge number of retail distribution outlets closed down
  - Higher threshold for accessing (fees) advice
  - Results of advice gap
    - Under-performs market/ benchmarks [Calgary report]
    - Avoids asset class altogether
    - Possibility of self-misselling is high
- **Behavioral Insights about Investors**
  - Distribution/ advisory services are a credence good (a product or service which is difficult to judge the value even after experiencing it)
  - Therefore there is a reluctance to pay advisor separately for advice
  - When forced to pay for credence good, customer avoids buying the product altogether
  - Overwhelming preference for in-person meetings with advisor, which adds to the cost of servicing the client
- **Behavioral Insights about Distributor-Assisted Investors**
  - Display better knowledge about MF products
  - Display correct behavior towards asset class in terms of tenor (long term investments)



Evidence has begun to emerge, however, that when regulatory agencies seek to increase transparency by outright prohibiting embedded products from the industry – thus forcing current and potential investors to evaluate and negotiate the terms (scope and fees) of their advisory services – **many investors either withdraw from the market or never enter.**

THIS APPROACH TO TRANSPARENCY HAVE UNINTENDED EFFECTS ...

