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An Exploratory Study on Role of Distributors in Mutual Fund Advisory Services

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ABSTRACT

The popularity of mutual funds in India has increased manifold over the years as it is evident from the increase in the asset base of the industry. Distributors play a major role in protecting the interests of the Investors. This study has considered various parameters to understand the role and importance of distributors for Mutual Fund Advisory Services. A purposive sample of 50 mutual fund distributors were approached using questionnaire-based survey method. The data was analysed using IBM SPSS 20, with the core objective of understanding.

The study has revealed an active relationship between distributors and clients, with regard to updates of market dynamics. Most of the Distributors are qualified and experienced and are equipped with the knowledge about the industry. However, this study is limited to a sample of 50 and focuses on the services provided by the distributors of mutual funds. The study does not include services rendered by independent financial advisors and wealth advisors in mutual funds.

Overall mutual fund industry in India has a wide product offering by public and private sector banks and AMCs. Investors should be aware (caveat emptor) and should understand the scheme's objectives, risks and return involved in a scheme before opting a suitable investment.

INTRODUCTION

Mutual fund is a mechanism of pooling together the savings of a large number of investors for collective investment. The funds are invested in various securities such as equity, debt in accordance with objective as disclosed in offer document.

Investors of mutual funds are known as unit holders. Mutual fund issues units to the investors in accordance to the quantum of money invested by them.

The structure of Mutual Funds in India includes: Sponsors(SEBI regulations say that a fund sponsor is any person or any entity that can set up a Mutual Fund to earn money by fund management), Trustee (The trustees work to monitor the activities of the Mutual Fund and check its compliance with SEBI (Mutual Fund) regulations), Asset Management Company(The asset management company acts as the fund manager or as an investment manager for the trust).

Distributor: AMC uses the services of distributors to buy and sell the mutual funds. A distributor can act for several or all of AMCs.Apart from mutual funds, some of the distributors render other financial services such as:Insurance, Equity, Real estate, Derivatives, Commodities, Currency, Initial Public Offer (IPO), Portfolio Management Services (PMS), Loans, etc.

REVIEW OF LITERATURE

Marcin kacperczyk,Clemens sialm,Lu zhen,(2005) suggest that investment ability is more evident among managers who hold portfolios concentrated in a few industries.Javier gil-bazo, Pablo ruiz-verdu, (2009)revealed a negative relation between funds before-fees performance and the fees they charge to investors.Paul G. Mahoney(2004) discussed the structure and regulation of mutual funds and the resulting incentives facing those who make decisions for the funds was mentioned. Few authors, Bruce A. huhmann, Nalinaksha Bhattacharyya (2005) reveal thatmutual fund advertisements are not providing optimal information to the consumers.Ajay Khorana, Henri Servaes(2011) mention thatprice competition and product differentiation are the factors that drive competition in the market. John C Coates IV, R. Glennhubbard (2002) discuss that Investors select fund complexes based on advisory fees, and not just individual funds, in

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allocating assets. Few authors, Mark Grinblatt, Sheridan Titman (1992) discuss about the differences in performance between funds persist over time and this persistence is consistent with ability to fund managers to earn abnormal returns. This rejection holds for portfolio returns constructed form the fund's quarterly holdings that proxy for the fund's gross returns.

Diego Garcia, Joel m. Vanden, (2003) study the formation of mutual funds by generalizing the standard competitive noisy rational expectations framework. In this model, informed agents set up mutual funds as a means of selling their private information to uninformed agents. The case is studied as imperfect competition among fund managers where uninformed agents invest simultaneously in multiple mutual funds. The size of the assets under management in the mutual funds industry is determined by endogenizing the agent's information acquisition decisions.

Rajesh Chakrabarti, Sart Malik, Sudhakar Khairnar, Aadhar Verma(2014) discusses few concerns such as, lack of good talent for training and hiring mutual fund agents, investor awareness and the financial sophistication among investors. AMCs are finding difficulty in recruiting the right distributors and agents in small towns and villages. Back channels are currently being under-utilized.

Punjika rathi, Rajan Yadav (2014): mentions that equity funds are most popular among investors. HDFC mutual funds, Bank sponsored mutual funds have highest AUM and Investors generally growth-oriented equity schemes with some fixed source of income.

NEED OF THE STUDY

The popularity of mutual funds in India has increased manifold over the years as it is evident from the increase in the asset base of the industry. Mutual Fund industry has grown from strength to strength -from Rs.25 crores assets under management at inception in 1964 to Rs.481749 crores in March 2013 to an impressive 2581397 crores on 30th June, 2019. In total there are 1294 schemes offered by about 44 Mutual fund houses operating in India. To fulfil the expectations of millions of investors, distribution channels are necessary. They play a crucial and comprehensive role, shaping the perception and experience of investors, beginning with need recognition to KYC enrolment to redemption of units in this industry. Therefore, there exists a need to study the role of distributors in mutual fund advisory. An in-depth review of literature reveals this as a research gap.

OBJECTIVES OF THE STUDY

- To understand the role and importance of distributors in mutual fund advisory service in the context of scheme selection.
- To conduct hypothesis testing to explore key factors in advisory services provided byMutual fund distributors.

SCOPE OF THE STUDY

The study focuses on the role of the Distributor towards Mutual Fund Advisory Services. Distributors in the sample, render many services such as Insurance, Bonds, Online-trading, Portfolio Management Service etc., along with the mutual funds. However, this study focuses on the services provided by the distributors towards mutual funds only. It does not include the services rendered by Independent Financial Advisors and wealth advisors towards mutual funds.

METHODOLOGY OF THE STUDY

Research design: An Exploratory Research is a type of research that is conducted for unfamiliar, under-researched topics or latent aspects of a familiar topic. Role of Distributors in Mutual Fund Advisory Service is an unexplored topic. This study is conducted to explore key factors in advisory services provided by Mutual fund distributors.

Variables: Knowledge, Qualification, Experience, Up-dation about market dynamics, Duration to Invest, Portfolio Management Service, Advice after Redemption, Mutual Fund services, Visits, IAP's.

Sampling method: The study follows purposive sampling and the distributors approached were Geojit Financial Services Ltd, Stock Holding Corporation of India Ltd, Sharekhan Ltd, Bajaj Capital Ltd, ICICI

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Direct Ltd, ICICI securities Ltd, Prudent Advisory Services Ltd., Integrated Enterprises Ltd, Way2wealth Securities Ltd, Nj India, Primus Wealth advisers LLP.

LIMITATIONS OF THE STUDY

The current study is designed to be exploratory and does not make inferential claims. Hypothesis testing was merely conducted to understand the correlation between research variables. The sample is too small to make predictive claims.

Mutual fund advisory service in India is enmeshed with advice for other related services such as banking and insurance products (for bank distributor division) or PMS service (for brokerage house) or financial plan (for independent investment advisor). Hence, the study results may be impacted by extraneous variables.

Commission and incentivized pay will influence the advice of the distributor; however, this variable is excluded from the study due to researcher's inability to verify any probable quasi-facts.

ANALYSIS

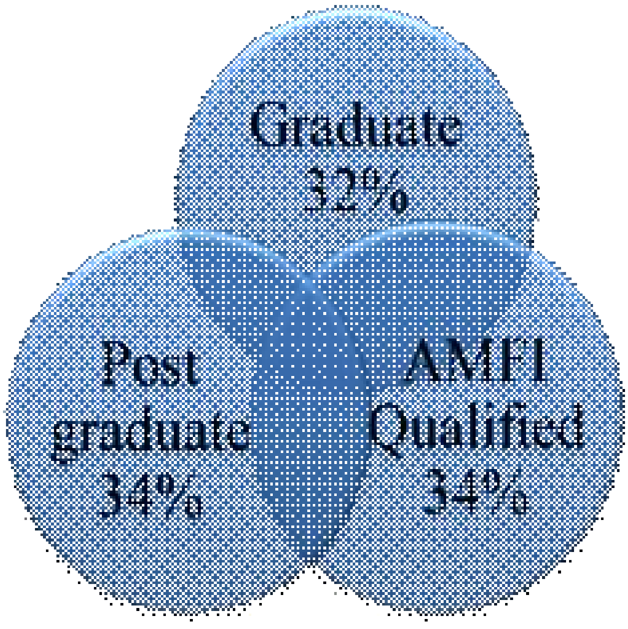
Descriptive Statistical Tools, Inferential Statistical Tools.

Correlation shows the mutual relationships between the variables. Higher the correlation, higher the connectivity between the variables. Chi-square statistic is an appropriate tool to establish relationship between two categorical variables.

DESCRIPTIVE STATISTICS

1. Demographics of distributors

Fig-1: Qualification of the distributors



Source: primary data

From fig.1, It can be inferred that, out of 50 distributors, 32% are graduates, 34% are post graduates and 34% are AMFI qualified. Many of the distributors are post-graduates or AMFI qualified, which in-turn reflects that distributors possess good knowledge about the financial instruments, organisations and the Industry.

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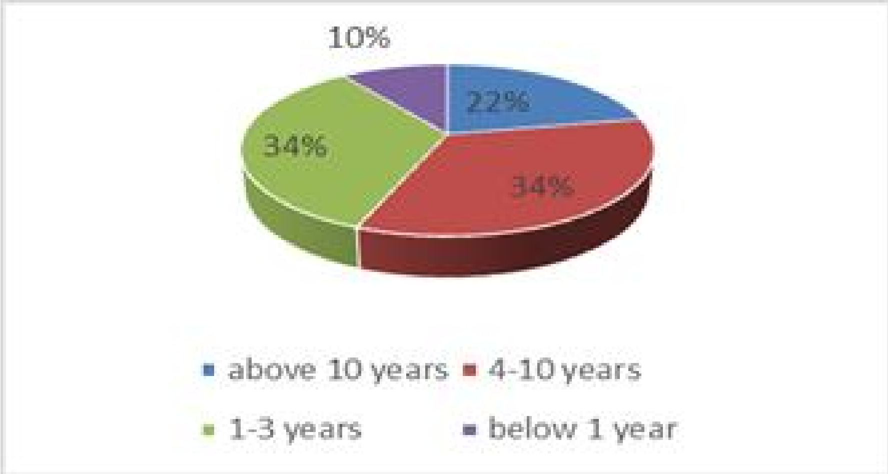
Fig-2: Experience of the distributors:



Source: primary data

From fig.2, it can be inferred that only 10% of the distributors are new to the industry, which again reflects that distributors are having good experience, which is essential for financial advisory.

Table-1: Shows crosstabulation between mutual funds and duration to invest:

Mutual funds * duration to invest Crosstabulation						
Count						
		duration to invest				Total
		below 3 years	3-5 years	5-15 years	above 15 years	
Mutual funds	No	0	1	0	0	1
	Yes	1	26	17	5	49
Total		1	27	17	5	50

Source: primary data

Form table1, it can be inferred that, most of the Distributors recommend Mutual Funds investment for the period 3-15 years to earn good returns. The role played by the Distributor is appropriate, i.e. when the Clients stay invested for a longer duration, good returns can be earned.

Table-2: Crosstabulationbetween recommendation only when asked and advice after redemption.

Recommended only when clients asked for * advice after redemption Crosstabulation				
Count				
		advice after redemption		Total
		Disagree	Agree	
recommended only when clients asked for	Agree	1	23	24
	Disagree	0	26	26
Total		1	49	50

Source: primary data

From table-2, it can be inferred that, Distributors are pro-active and don't wait for client to enquire about Mutual Funds. Also, they are aggressive and keep tapping into the same client pool, recommending even after redemption. The positive aspect is that it signals a long-term relationship between client and distributor.

2. INFERENTIAL STATISTICS

The study attempts to explore the role of distributors in mutual fund advisory service, assuming that good quality service entails; experienced and well qualified advisor, regular contact with client, information up-dation, long-term engagement and service, pro-active attitude, competitive spirit, etc.

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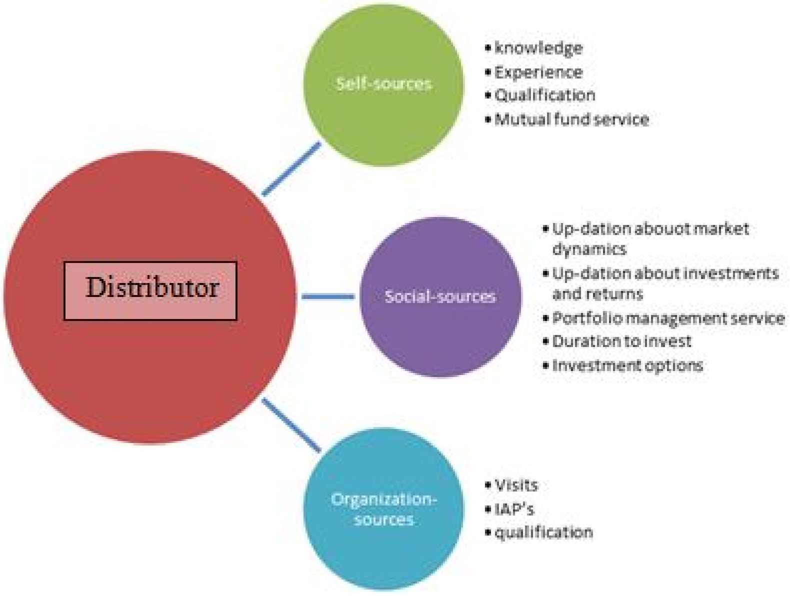
Sources of Quality in Mutual Fund Advisory Service



Cross tabs & Chi-square statistics were run to explore relationships among the above-mentioned variables, organizing them under three sources of quality in advisory service.

1) Personal-sources
2) Social-sources
3) Organization-sources

Table-3: shows the chi-square tests run among various variables.

Variable1	Variable 2	P	df	Sig.	Null hypothesis
Experience	Knowledge-score	.671	6	.612	Accepted
Qualification	Knowledge-score	.465	4	.390	Accepted
Updation about market dynamics(clients)	Updation about market dynamics(Distributors)	.011	6	.026	Rejected
Updation about Investments and returns	Duration to invest	.072	6	.072	Accepted
Duration to invest	Investment options	.758	3	.572	Accepted
Distribution Channel	Visits to other distribution channel	.051	3	.021	Accepted
Distribution Channel	Frequency of IAP's	.000	3	.000	Rejected

From the table 3, following statements are inferred:

Most of the Distributors have scored similarly high in knowledge-score irrespective of more or low experience.

Below 3 years segment has completely been neglected by the Distributors in updating the clients about investments and returns as they do not suggest them to invest only for 3 years. Clients with investment period between 3-15 years are being updated regularly about their investments and returns.

As expected, Distributors do not update their clients on a quarterly or yearly basis, which reflects an active relationship between Distributors and clients. Distributor are clearly tuned into the market on an hourly or weekly basis, and this benefit is passed on to the clients.84% of the clients are tuned into the market, due to this input by the distributor, hence the relationship is significant.

Irrespective of reports on investments and returns passed on to the clients, which is based on market dynamics, a discipline is maintained in Investing among the clients, which again implies, a Distributor is playing an appropriate role.

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Nature of valuation of SIP and lumpsum clarity should be given by the Distributor. In the table, there seems to be no difference between SIP and lumpsum.

Most of the distributors are visiting other distributors on a weekly basis, which represents Distribution-driven model.

A significant relationship between the Distribution Channel and frequency of IAP's shows how frequently the information has been passed on to the client.

KEY FINDINGS

- Most of the Distributors have scored similarly high in knowledge-score irrespective of more or low experience and also the qualification.
- Distributors are clearly tuned into the market on an hourly or weekly basis, and this benefit is passed on to the clients.
- Irrespective of reports on investments and returns passed on to the clients, which is based on market dynamics, a discipline is maintained in Investing among the clients.
- Nature of valuation of SIP and lumpsum clarity should be given by the Distributor.
- Most of the distributors are visiting other distributors on a weekly basis, which represents Distribution-driven model.
- Traditional distributors are using traditional modes. While, Modern distributors use many online touch-points to bring awareness among the investors.
- Traditional distributors are either graduates or post-graduates. While, most of the modern distributors are AMFI qualified.
- Distributors have strong understanding about the fund category and equivalent financial objectives such as:

▪ ELSS is recommended for tax-benefit seeking customers.

▪ Liquid funds for short-term investors.

▪ Equity market yields high returns

▪ Debt market gives indexation benefit

85% of the Distributors are in accordance with above 4 statements.

CONCLUSION

Distributors play a major role in advising the clients about their investments. Most of the Distributors are qualified, knowledgeable and have more than 4-years' experience in this industry.

Their advisory service includes:

❖ Enrolment of KYC.

❖ Selection of schemes.

❖ Selection of options.

❖ Selection of SIP, STP, SWP.

❖ Redemption of funds.

Here, Hypothesis Testing proves that there is a significant relationship between updating himself (the Distributor) and the Clients. Most of the Distributors are not only being updated regularly, but also are updating their Clients. This practice, is in-turn helping the Clients in getting market updates on a regular basis. However, since these updates are given by the Distributor, it may lead to undue influence of the distributor over investor.

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It is also identified that, there is a significant relationship among the Distribution Channel, visits and the Certification. This shows that many of the Distributors are knowledgeable about the products, organisation and the whole Industry. This mastery may be an added advantage and may offer them a role of influence over the clients during investment.

Indian Mutual Fund Industry is essentially retail based with low percentage of direct investing.

In the whole process, Distributors are required to keep an eye on the growth of the investments done, as all the Investors are not aware of the market. However, Investors should be mindful while selecting the funds.

Clients should be pro-active. They should prefer direct-investments as many online platforms are providing total insights about the Industry. It should change from Distributor-driven market to Client-driven market.

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