Chapter 5

Investment preference of bank employee towards mutual fund

Introduction

Many mutual funds from the public, as well as private sectors, have entered into the market with innovative schemes to cater to the requirements of the investors in India(Mehta and Shah, 2012). The majority of individual investors have invested in the mutual fund in most developed countries (Matthew**,** et al., 2007).

Investment culture among the people of a country is required in order to boost up the economy, entrepreneurial growth and capital formation (Singh and Bhowal, 2009). Investment culture refers to the attitude, perception, and willingness of the individuals in parking their savings in various financial avenues.

Singh and Chander (2006) suggested for alternative investment avenues for the investors as the interest rates on investments like the public provident fund, national saving certificate, bank deposits are falling down. One such option is to invest in capital market through mutual funds. This helps the investors to avoid the risks involved in direct investment. Singh (2009) found that salaried investors prefer to invest in equity through indirect route such as mutual fund than investing directly in equities.

Ramanathan and Meenakshisundaram (2015) reveals that the bank employees are aware of the various avenues of investment and would prefer investment where a return on investment is good and it helps in asset creation for their future. During the 1990s, the government allows the private and public sector banks to set up mutual funds. So, a preference level of bank employees towards mutual fund is an emerging area of behavioural finance.

Preferences of investment avenues among the investors become the important factor that influences the investment behaviour (Chambers and Schlagenhauf, 2002; Gomes, et. al., 2004; Kesavan et. al., 2012). The preference of an investor towards mutual fund is influenced by Asset Management Company (AMC) which is familiar to them. This is because investors like to invest in a company which is familiar to them (Singh and Bhowal, 2010). In this situation, the present study is an attempt to examine whether there exist differences in the preference levels of bank employees with respect to the mutual fund sponsored by the bank where they are working and other mutual funds.

Different Schemes of mutual funds

There are different schemes of mutual funds and different investors used to have a different degree of preference for the different schemes. In this study, the preference of employees to invest in different schemes of the mutual fund have been calculated. Given below is the brief description of different schemes of mutual funds as per their investment objective:

a. Growth / Equity oriented scheme

The objective of this fund is to provide capital appreciation over the medium to long- term. These schemes usually invest a large part of their funds in equities. There is comparatively high risk involved with such types of funds. These schemes offer different options to the investors such as dividend option, capital appreciation etc. The investors may select an option based on their preferences. Investors can change the options at a later date. Growth schemes are suitable for investors having a long-term point of view seeking appreciation over a period of time.

b. Tax saving schemes

The special features of this schemes are to offer tax rebates to the investors under specific provisions of the Income Tax Act, 1961. This is because the Government offers tax incentives for investment in specified avenues such as Equity Linked Savings Schemes (ELSS). Pension schemes offered by the mutual funds also have tax benefits. These schemes are growth oriented. Besides, these schemes invest predominantly in equities.

c. Income scheme

The objective of the scheme is to offer regular and steady income to investors. This kind of schemes usually invests in fixed income securities such as bonds, corporate debentures, government securities and money market instruments. The risk involved in these kinds of funds are relatively less compared to equity schemes. Volatility in the stock markets least affect this kind of funds but at the same time, the capital appreciation aspects are also limited in such type of funds.

d. Money market fund

The objective of this types of the fund is to give easy liquidity, protection of capital and moderate income. These schemes invest solely in safer and short-term instruments such as treasury bills, certificates of deposit, commercial paper and interbank call money, government securities, etc. These funds are least volatile of all the funds.

e. Index funds

Index funds replicate the portfolio of a particular index such as the BSE SENSEX, S&P NSE 50 index (Nifty), etc. These schemes invest in the securities in the same weight comprising of an index. NAVs of such schemes would rise or fall in accordance with the rise or fall in the index, though not exactly by the same percentage due to some factors are known as "tracking error". There are also exchange-traded index funds launched by the mutual funds which are traded on the stock exchanges.

f. Balanced fund

The objective of balanced funds is to give both growth and regular income. These funds invest both in equities and fixed income securities in the proportion shown in their offer documents. These funds are suitable for investors who are looking for moderate growth. They generally invest 40-60% in equities and debt instruments.

Investors familiarity bias towards investment

Numbers of studies have been conducted regarding familiarity bias towards their preference in investment. Familiarity bias occurs when investors prefer to invest in a portfolio which is familiar as compared to an unbiased portfolio. Mohanta and Debasish (2011) carried out a study to inspect the investment preferences and practices of the individual investors, their investment related characteristics and investment avenues. Investors generally prefer to the investment avenues which are familiar to them. Investors have a strong preference to their home country products in spite of better performance of foreign products (Chan, et al., 2005; Huberman, 1998). Meulbroek (2005) observed that investors prefer to hold a large position of the asset in their own company stock for long period of time as compared to a diversified portfolio. It was also found that investors are influenced by the place where they live and work. They tend to hold stocks of companies close to where they live and invest heavily in the stock of their employer (Barber and Odean, 2011). It is observed that even overconfident investors are also interested to invest more in those assets with which they are familiar (Barber and Odean, 2001). Coval and Moskowitz (1999) found that mutual fund managers exhibit a preference for locally headquartered firms. Investors may display a home bias and invest in stocks of companies where they live (Hau, 2001; Bhattacharya and Groznik, 2001).

Bailey, et al. (2011**)** examined the effect of behavioural biases on the mutual fund preference. Workers prefer to buy stock of firm where they work but not like to invest in similar firm present in other regions (Huberman, 2001; Benartzi and Thaler, 1995; Benartzi, 2001). It indicated that familiarity bias affects decisions about investment.

From the above literature, it is clear that familiarity biases influence investment preference. Therefore, the present study investigates whether bank employees in Tripura demonstrate any specific preference towards the mutual fund which is sponsored by the bank where they are working which is expected to be relatively familiar with the bank employees of the concerned bank as compared to other mutual funds.

Objective

- To compare the relative preferences of bank employees for investment in mutual fund sponsored by their banks vis a vis other mutual funds.

Hypothesis

The null hypothesis formulated for the chapter is given below.

- H_{06}: There is no significant difference with respect to investment preference of bank employees for investment in mutual fund sponsored by their banks and other mutual funds.

Analysis and findings

Analysis and findings of the chapter are given under the following paragraphs:

The overall level of preference of six schemes is presented in table 5.1.

Table 5.1: Overall preference of six schemes

	Growth schemes		Tax saving schemes		Income schemes		Money market schemes		Index schemes		Balanced schemes	
Level of preference	**No. of employees**	**Percent**	**No. of employees**	**Percent**	**No. of employees**	**Percent**	**No. of employees**	**Percent**	**No. of employees**	**Percent**	**No. of employees**	**Percent**
Higher level of preference of Mutual fund sponsored by own bank	151	57.6	153	58.4	115	43.9	99	37.8	95	36.3	97	37.0
Higher level of preference of other mutual Fund	10	3.8	10	3.8	7	2.7	1	.4	7	2.7	6	2.3
Equal preference for both	84	32.1	83	31.7	124	47.3	146	55.7	144	55.0	143	54.6
Non-responsive respondent	17	6.5	16	6.1	16	6.1	16	6.1	16	6.1	16	6.1
Total	262	100	262	100	262	100	262	100	262	100	262	100

Source: Compiled from questionnaire

From the table5.1, it is observed that majority of employees prefer to invest in an own bank sponsored mutual fund for all the schemes of the mutual fund**.**

5.6.1 Comparative analysis of preference level of different schemes of mutual fund between own bank sponsored mutual fund and others than own bank

Table 5.1 shows that employees prefer to invest in mutual fund sponsored by their own bank than other mutual funds. In order to test whether these differences are significant or nor, Z-test is applied. When testing the null hypothesis of equality of proportions: H0: P_{own}= P_{other} against the alternativeH_1: P_{own} > P_{other}, Z test is suitable for the hypotheses and its reasons are indicated in section 2.10.

The employees who have a higher level of preference of mutual fund sponsored by their own bank than other mutual funds and a higher level of preference of other mutual fund than that of sponsored by an own bank are considered for the study. The employees who have equal preference level for the both are not considered for the study. In this study,

P_{own}= Proportion of higher level of preference of mutual fund sponsored by an own bank than others.

P_{others}=Proportion of a higher level of preference of other mutual fund than the own bank sponsored mutual fund.

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Table 5.2: Proportion test

Schemes of mutual fund	Hypotheses	Z-statistic	P value	Conclusion
Growth schemes	H_o: P_{own}=P_{other} H_1: P_{own}> P_{other}	8.4586	0.00	Significant
Tax saving schemes	H_o: P_{own}=P_{other} H_1: P_{own}> P_{other}	8.4837	0.00	Significant
Income schemes	H_o: P_{own}=P_{other} H_1: P_{own}> P_{other}	7.2104	0.00	Significant
Money market schemes	H_o: P_{own}=P_{other} H_1: P_{own}> P_{other}	6.5031	0.00	Significant
Index schemes	H_o: P_{own}=P_{other} H_1: P_{own}> P_{other}	6.5505	0.00	Significant
Balanced schemes	H_o: P_{own}=P_{other} H_1: P_{own}> P_{other}	6.6522	0.00	Significant

Source: Compiled from questionnaire

The null hypotheses for all the schemes of the mutual fund are shown in table 5.2 that bank employees have equal preference level towards their own sponsored mutual fund and others mutual fund against the alternative hypotheses that bank employees have a higher preference level towards their own sponsored mutual fund than others mutual fund. In order to test these hypotheses, z test has been applied and p-value from the table5.2 shows that all the hypotheses are significant at 5% level of significance as p-value is less than 0.05. It indicates that employees have a higher preference level towards their own bank sponsored mutual fund than others mutual fund for all the schemes mentioned in the study.

Conclusion

The objective of this chapter was to compare the investment preference of bank employees in Tripura for investment in different schemes of mutual fund sponsored by the banks where they are working with other mutual funds. Six schemes are considered for the study. It is concluded that employees have a high preference towards all the schemes of mutual fund sponsored by banks where they are working, given the test and methodology. They are more familiar with the mutual fund schemes which are sponsored by their own banks. So, from this study, it can be concluded that bank employees are also having familiarity bias to select Asset Management Company (AMC). Employees are familiar with the workings of the company and being the internal members of the organization, they have the knowledge about the company's future plans, growth, and new contracts. So they have a bias towards their own company’s mutual funds (Singh and Bhowal, 2010). This finding is a useful input for the policy makers as they come to know that bank employees being highly financial literate are also unfamiliar towards others

AMC. Emotions of fear and suspicion are directed to the unfamiliarity which leads to several biases in individual psychology as well as financial decisions (Cao, et al., 2007). So bank employees also need proper information towards others Asset Management Companies which are performing well. Brennan and Cao (1997) indicate that investors prefer familiar asset due to asymmetric information. Choi, et al., (2005) argue that assessment failure of the asset is not due to a lack of information rather a behavioural bias.

Bank has established positive faith in the mind of all types of investors (Selvi, 2015). So, through a bank, the mutual fund can be promoted to a great height. Some bank does not have own bank sponsored mutual fund rather they offer others' mutual fund. Bank employees need to be provided awareness program by different AMCs in order to become rational and informed so that they will be interested in investing and can guide properly the bank customer who is looking for best mutual fund to investment. Shankar (1996) suggested that in order to penetrate mutual fund culture deep into the society, AMC must have to work and guide the consumer product distribution model.