

Market Scoping for Mutual Funds in India

Abstract: The retail mutual fund investor base is quite small at an estimated 5.3 million individual investors in 2007. A major explanation for this is low awareness levels of mutual fund investment opportunities in the retail investor base more generally. Take-up rates of mutual fund investments among the aware investor population are encouragingly high and if other investors with similar financial profiles to mutual fund investors were aware of mutual fund opportunities the size of the existing mutual fund investor base presently might be three times higher.

Data released by IIMS Dataworks indicates that the low take up of retail mutual fund investment opportunities in India has as much and more to do with low awareness levels among smaller retail investors as it does issues of risk appetites.

The table 1 shows the incidence of retail mutual fund investment¹ among India's small investor population in 2007 who were aware of mutual investment opportunities. What this demonstrates is that the incidence of investment among persons aware of mutual fund investment opportunities is already at encouraging levels even in rural areas. However, the incidence varies across occupational groupings, income cohorts and across geographical types.

If these investment incidences are applied to the corresponding occupational, income and geographical groupings for the small investor population that is not aware of mutual fund opportunities but who have available savings balances in bank, postal and/or life insurance savings, the result is that up to 9 million additional retail mutual fund investors might already have been in the market if they had been aware of investment opportunities on offer. That result would have nearly trebled the aggregate size of the existing retail mutual fund investor base in 2007. When we discount this figure by excluding two thirds of the rural and lower-income investors from the calculation the result still is that a substantial increase in excess of 4.6 million new investors would have been possible.

Table 1 : Investment Incidence in 2007 of the Investor Population Aware of Mutual Fund Investment

Investors' Annual Incomes (Rupees lakh)	Occupation ²	Geographic Location of Investors			
		Rural areas	Smaller towns	Class I towns	Metros
<=1	Low investment incidence occupation group	33	47	47	25
	High investment incidence occupation group	28	68	80	56
1 - 2	Low investment incidence occupation group	144	110	202	154
	High investment incidence occupation group	96	133	200	139
2 - 5	Low investment incidence occupation group	136	301	549	384
	High investment incidence occupation group	291	314	435	476
> 5	Low investment incidence occupation group	238	453	710	501
	High investment incidence occupation group	457	418	676	614

¹ Investing incidence is posterior conditional probabilities divided by 1000, or the number of persons in the group investing in mutual funds per 1000 aware persons in the group.

² Lower incidence occupation segments are farmers using traditional farming methods and others involved in primary production, street vendors, grocers, self employed and own account workers. Higher incidence occupation segments include self employed professionals, those engaged in a business with fixed premises (excluding grocers), salaried employees and farmers using mechanised farming methods.

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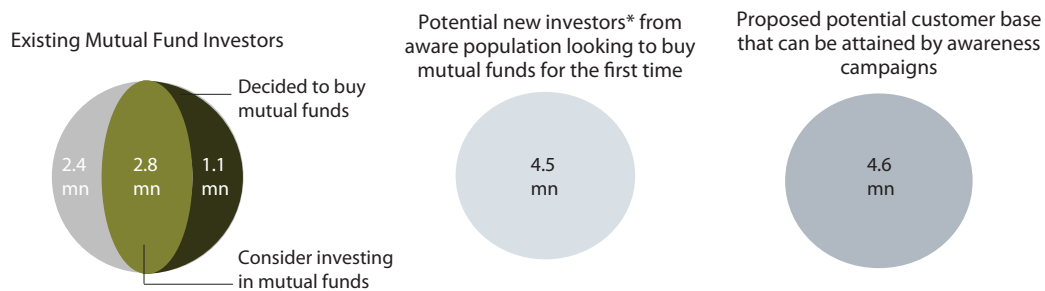
Small Retail Investors in Indian Securities Markets

Please forward research proposals to Dr. Akshaya Patro, Associate Director (Research)

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Figure 1 : Potential Mutual Fund Investor Base



In 2007 there were an estimated 5.3 million retail mutual fund investors. Although adverse equity market conditions in more recent times may significantly dilute the outcome, demand forecasts based on the data estimate that this number could grow by up to an additional 4.5 million new investors over the course of 2008, with up to three quarters of existing investors also considering increasing their mutual fund exposure.

Fifty percent of those planning in 2007 to enter the market for the first time were salaried employees and one third were self-employed business people. One third were aged under 35 years and two thirds were residing in metro cities and larger towns. All positive indicators in terms of minimal sales and distribution barriers being present. Equally positive is the fact that the potential investor group among the unaware population shares characteristics that mirror those of the existing investor base except that their investment capabilities are, if anything, higher than those of existing investors.

One issue for AMCs therefore is what can be done to increase awareness levels from its present level of around 9 percent among the 321 million working age population with cash incomes in India. The following table shows from what source the current aware population first became aware of mutual funds and the rate of conversion from awareness to becoming investors.

As table 2 says, Mutual fund agents are clearly a key source

of awareness raising, but bank distributors have a significantly higher investor conversion rate than all other information sources. The conversion rate from informal awareness raising sources (social networks & others) also outscores the agent workforce. This indicates that the seeds of awareness raising are already present in AMC management practices but the mix of business investments currently may not be optimal.

From table 3 it is clear that most of those who have chosen not to invest in mutual funds believe that people are not investing in mutual funds fearing that they cannot afford the investment and/or feeling the investment as a risky one. This issue however together with others apart from an active preference for other savings products are not insuperable and should be within the powers of AMCs to remedy with better promotional and information products to assist potential customers overcome their concerns and misconceptions.

Table 3: Existing Barriers of Aware Population

First source of information of the aware population	Do not understand how to buy	Products are too complex and difficult to understand	Investment requirements are too onerous	Cannot afford	Find other savings products more attractive
Agents	8.1	15.1	7	68	37.5
Print Media	10.5	14.6	4.8	70.8	29.7
Electronic media	11.7	15	5.9	67.4	31.2
Banks	11.4	17	1.8	55	52.8
Social networks & others	14.4	9.9	3.5	68.8	32.6
Total	11.2	14	5.1	68.1	33.5

Table 2

First source of information of the aware population	First source of awareness among aware population (percent)	First source of awareness among aware population that comprehend mutual fund concepts (percent)	First source of awareness among mutual fund investor population (percent)
Agents	25.2	64.3	37.1
Banks	7.2	61.5	40.1
Electronic media	23.5	40.6	14.2
Print Media	25.5	47.7	10.3
Social networks & others	18.5	36.7	12.3
Total	100	49.2	20.5