EXHIBITION OF FAMILIARITY BIAS AMONG MUTUAL FUND INVESTORS: A STUDY ON BANK EMPLOYEES

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ABSTRACT:
Mutual funds offer variety of schemes according to the need of individuals. Behavioral bias is influencing preference of mutual fund schemes. In the present paper, comparative study between the investment preference of bank employees in Tripura for investment in mutual fund sponsored by the bank where they are working and other mutual funds, is analyzed and interpreted. It is found that majority of bank employees in Tripura are having high preference level towards their own bank sponsored mutual fund. Thus, employees are exhibiting familiarity biases towards selecting the schemes of mutual fund. The study is original in nature. Our study strongly suggests that there is a need for implementing investors education program to enhance the level of financial literacy and to remove the familiarity biases of bank employees being mutual fund investors.

Keywords: Mutual Funds, Bank Employees, Familiarity Bias, Preference Level.

INTRODUCTION

A mutual fund collects money from many investors through an investment company and invests the money in stock, bonds, short-term money- market instruments and other assets on their behalf with supervision of expert fund manager. The incomes generated through this investment are enjoyed by unit holders in proportion to the number of units owned by them. Many players from public as well as private sectors have entered in to the market with innovative schemes to cater to the requirements of the investors in India (Mehta and Shah, 2012). Majority of individual investors have invested in mutual fund in most developed countries (Matthew, et al, 2007). Preferences of investment avenues among the investors become the important factor that influences the investment behaviour (Chambers and Schlagenhauf, 2002; Gomes, et. al., 2004; Singh and Chander, 2006; Kesavan et. al., 2012).

Bank employees are considered as financially literate. Recently, most of the banks have started their own asset management companies and thus, they are promoting mutual funds under their own brand name (Deb & Singh, 2018). Ramanathan and Meenakshisundaram (2015) reveals that the bank employees are aware about the selection basis of investment and would prefer investment where return on investment is good and it helps in asset creation for their future. During 1990s, the government allows the private and public sector banks to set up mutual funds. 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). Huberman (2001) found that people invest in the familiar while often ignoring the principles of portfolio theory. Foad (2010) stated that familiarity bias occurs when investors are biased toward familiar assets, even in the absence of superior information about these assets. Our Study focuses on whether bank employees are having behavioural bias in investment. Higher preference level of bank employees towards mutual fund in familiar Asset Management Company (AMC) is a behavioural bias. In this situation, the present study is an attempt to examine whether there exist different preference levels of bank employees between own bank sponsored mutual fund and other mutual funds.

1. Schemes according to investment objective

There are several mutual fund schemes designed according to the investment objective of the respective fund. These are explainedasunder:

a. Growth / Equity oriented scheme

The objective of fund is to provide capital appreciation over the medium to long- term. These schemes normally invest a large part of their funds in equities. Such funds possess comparatively high risks. These schemes offer different options to the investors such as dividend option, capital appreciation and the investors may select an option based on their preferences. Investors are able to 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

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The speciality of the schemes is to offer tax rebates to the investors under specific provisions of the Income Tax Act, 1961 as the Government offers tax incentives for investment in specified avenues, for example, Equity Linked Savings Schemes (ELSS). Pension schemes are also offered by the mutual funds which have tax benefits. These schemes are growth oriented and invest pre-dominantly in equities. Risks associated are same as any equity-orientedscheme.

c. Income scheme

The objective of the scheme is to offer regular and steady income to investors. Such schemes generally invest in fixed income securities such as bonds, corporate debentures, government securities and money market instruments. These schemes possess less risk compared to equity schemes. These funds are relatively less affected by volatility in equity markets. However, prospect of capital appreciation is also limited in such funds. The NAVs of these funds are affected due to change in interest rates in the country and NAVs of such funds are inversely related in the short run.

d. Money market fund

The objective of the fund is to give easy liquidity, protection of capital and moderate income. These schemes invest solely in safer short-term instruments such as treasury bills, certificates of deposit, commercial paper and inter-bank call money, government securities, etc. As compared to other fund, there is lesser volatility in return of these funds. These funds are suitable for corporate and individual investors as a means to invest their surplus funds for short periods.

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 weightage 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 known as "tracking error". Necessary disclosures in this regard are made in the offer document of the mutual fund scheme. 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 as such schemes 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 in the ratio of 40: 60 in equity and debt instruments. These funds are also affected due to change in share prices in the stock markets. NAVs of such funds fluctuate less as compared to equity funds.

3. Preference of different schemes of mutual fund

Mutual funds offer large variety of schemes in the market according to needs of the investors (Geetha and Ramesh, 2011). Bodla and Sunita (2008) concluded in their study that the mutual fund offers 609 schemes with variety of features and Income schemes have an edge over growth schemes in terms of Assets under Management. Sadhak (2007) wrote that mutual funds had experienced incredible growth when they penetrated India's financial service sector and it is also observed that the growth of mutual funds market was not accelerated as Indian investors were still unable to understand the complexity of investing in sophisticated investment options. Gupta, et al., (2011) conducted a study in Ahmedabad, Gujarat and found that the majority of investors were aware about mutual funds and prefer to invest in it. Most preferred scheme was balanced fund. The study found that Income Schemes and Open-ended Schemes are more preferred than Growth Schemes (Jambodekar, 1996). Goetzman (1997) states that investor psychology has influenced fund scheme selection.

Numbers of studies have been conducted regarding familiarity bias towards their preference in investment. Familiarity bias occurs when investors prefer to invest portfolio biased toward assets 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 the investment avenue which is familiar to them. Investor has strong preference to their home country product in spite of better performance of foreign product (Chan, et al, 2005). Meulbroek (2005) observed that investor prefer to hold a large position of asset in their own company stock for long period of time as compared to a diversified portfolio. Investors are influenced by 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). Barber and Odean (2001) found that overconfident investors are interested to invest more in those assets with which they are familiar. Coval and Moskowitz (1999) found that mutual fund managers exhibit a preference for locally headquartered firms. Investors may

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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 behavioral biases on the mutual fund preference. Feng and Seasholes (2002) find that Chinese investors have exhibited familiarity bias in their purchasing of local companies. Workers prefer to buy stock of firm where they work but not like to invest of similar firm present in other regions (Huberman, 2001; Benartzi and Thaler, 1995; Benartzi, 2001; Singh2009; Singh and Bhowal, 2010). It indicated that familiarity bias affect decisions about investment.

From the above literature, it is clear that familiarity biases influence investment preference. Therefore, present study investigates whether bank employees of Tripura prefer to select the schemes of mutual fund sponsored by their own bank which is expected to be relatively familiar among the bank employees of the concerned bank or other mutual funds.

4. Objective of the study

The objective of the present study is as follows:

To compare the relative preference of investing bank employees of Tripura for mutual fund sponsored by their own employer vis-a-vis other mutual funds.

5. Hypothesis

The null hypothesis formulated for the study is given below.

H01: There is no significant difference with respect to investment preference of bank employees for investment in mutual fund sponsored by their bank and other mutual funds.

6. Research Methodology

The study is conducted using the following research methodology:

a. Universe of the study

The universe of the study consists of all those bank employees in Tripura who are employee of a bank which is having own sponsored mutual fund. The total numbers of such employees as on 1st April, 2021 were 815.

b. Sampling unit and Sample size

Using simple random sampling design from the population of 815 employees at 95% confidence level and 5% confidence interval, a sample of 262 employees was obtained. The sampling unit is the individual bank employee who is from the banks which were having own sponsored mutual fund.

c. Data collection

In order to achieve the objective of the study, a well-structured questionnaire was prepared and used for collecting primary data. For secondary data, journals, magazines and newspapers wereconsulted.

d. Development of Questionnaire

Questionnaire was developed for collecting primary data. To measure preference of bank employees towards investment in mutual fund, six schemes of mutual fund were considered. Options were provided on five levels of preference such as very high preference, high preference, moderate preference, least preference and no preference. Each scheme was also provided with two optionsofpreference,namelypreference of mutual fund of their own bank and preference of mutual fund other than that of their own bank respectively. The Schemesweregivenasfollows

- First scheme was related to growth schemeofmutualfund,
- Secondschemewasrelatedtotaxsaving schemes
- Third scheme was related to income schemes,
- Fourth scheme was regarding money marketschemes,
- Fifth scheme was related to index schemes,
- Sixthschemewaswithrespecttobalance schemes,

e. Data analysis

For assessing comparative analysis of preference of bank employees towards investment in mutual funds some statistical test such as ratio, tabulation, percentageandZ-testhasbeenused.

7. Analysis and Findings

Analysis and findings of the study is given under the following paragraphs: The overall level of preference of growth schemeispresentedinthetable1.

Insert Table 1 here.

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

Table 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 statistically significant or nor, Z-test was applied. While testing the null hypothesis of equality of proportions (H0: P1 = P2) against the alternative hypothesis that the population proportions are not equal (H1: P1 = P2), the Z test and the X2 test are equivalent methods. However, if the evidence of a directional difference is to be found out such as P1 > P2, it must use the Z test, with the entire rejection region located in one tail of the standardized normal distribution.

In the table 2, it is seen that all the alternatives hypotheses are having directional differences, such that H1: Pown > Pother.. So, Z test is suitable for the hypotheses mentioned in table 2. The employees who have higher level of preference of mutual fund sponsored by their own bank than others and higher level of preference of other mutual fund

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than own bank are considered for the study. The employees who have equal preference level of the both are not considered for the study. In this study,

Pown= Proportion of higher level of preference of mutual fund sponsored by own bank than others

Pothers=Proportion of higher level of preference of another mutual fund than own bank's sponsored mutual fund.

Insert Table 2 here.

The null hypotheses for all the schemes of mutual fund, as seen in table 2, that bank employees have equal preference level towards their own sponsored mutual fund and mutual fund other than that sponsored by their own bank against the alternative hypotheses that bank employees have a higher preference level towards their own sponsored mutual fund than other mutual fund. In order to test these hypotheses, Z-test has been applied and p-value from the table 2 shows that all the null hypotheses are rejected at 5% level of significance as p value is less than 0.05. It means the difference in their preference towards own bank sponsored mutual fund is significantly greater than that of another mutual fund. This finding is applicable for all the schemes considered for the study.

8. Conclusion and Policy Implications

It is concluded that employees have high preference towards all the schemes of mutual fund sponsored by the bank where they are working over other mutual funds. They are more familiar with the mutual fund schemes which are sponsored by their own banks. Employees are exhibiting familiarity bias to the AMC promoted by their own bank. This finding is a useful input for the policy makers as the bank employees being financial literate are also showing this kind of bias. This kind of bias affect the individual psychology as well as financial decisions (Cao, et al., 2007). Brennan and Cao (1997) indicate that investors prefer familiar asset due to asymmetric information. Choi, et. al, (2005) argue that assessment failure of asset is not due to the lack of information rather a behavioral bias. Employees are familiar with the workings of bank and being the internal members of the bank, they have the knowledge about the company's future plans, growth, and new contracts. So, they have bias towards their own company's mutual fund (Singh and Bhowal, 2010). Displaying a bias toward the familiar suggests lack of diversification and knowledge (Foad, 2010). Hence, bank employees also need proper

f. Balanced fund

information towards others Asset Management Companies which are performing well. Deb & Singh (2018) found that fear psychosis of investors is playing the highest role followed by investor's lack of confidence and investor's lack of knowledge based. Therefore, the study strongly suggests that there is an urgent need to educate the mutual fund investors through proper Investment awareness programs so that they make an unbiased and intelligent investment rather than being familiarity biased. Moreover, banks have established positive faith in the minds of all types of investors (Selvi.2015). So, through bank, mutual funds can be promoted to a great height. Some banks do 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 to invest and can guide properly the bank customer who is looking for best mutual fund company for 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.

9. Scope of future research

This study is conducted on the bank employees' familiarity bias towards own bank sponsored different schemes of mutual fund in Tripura. Similar studies can be conducted by considering other sector employees or similar study can be undertaken with respect to equity shares.

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