

## A Comparative Study of Mutual Funds and Insurance in India

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### ABSTRACT:

In today's competitive world, we found that the mutual funds and the insurance sector have the most opportunities and potential to grow as compared to other sectors or financial instruments. Insurance has had maximum growth, and now mutual funds are also spreading day by day in our country. In this research, I understood the trends of both mutual funds and insurance and the investing patterns in these two tools. In this project, we studied all aspects of mutual funds and insurance and how these two tools are different from each other. In this study, we also did a comparative study of both the mutual funds and the insurance. So we come to understand the psychology of investors while choosing investment tools. Though it is very easy to decide, people tend to get confused because of a lack of awareness about these tools. Mutual funds are pure investment tools, whereas insurance covers the investment and financial security of a family. The comparison of both the financial tools are done through survey of 103 peoples by using structured questionnaire. I have collected the data by using primary method of collection the data. Then I analysed the collected data by using tabular or graphical forms. We know the trends of mutual funds and insurance, the investor's perception towards investment in mutual funds or insurance, and the role of these two financial products in India. This study helps to know about the investor's mind set while investing, the role of mutual funds and insurance, and the trends of these two products in India.

**Keywords:** *Investor's perceptions, Mutual funds, Insurance, Investment trends in India, Role of investment, Behaviour of investors.*

### INTRODUCTION

Mutual funds are basically a pool of money that is gathered from retail or small investors for common goals. The collected money is invested in the capital market and the money market with the purpose of getting a good return out of it. The collected fund is managed by the fund manager, who is very experienced in this work, and they possess a good analytical sense when investing that collected money into different schemes of investment tools.

When an investor subscribes for the units of a mutual fund, he becomes part owner of the assets of the fund in the same proportion as his contribution to the total fund or corpus. A mutual fund investor is also known as a mutual fund shareholder or unit holder. The net asset value of any scheme is calculated by dividing the market value of the net asset by the total number of units issued to the investors. NAV represents a fund's per-

share market value.

A fund manager is an investment professional who is hired by a mutual company or trustee to manage one or more of the fund house's schemes. They have good analytical knowledge and are a highly experienced person. They basically invest the collected mutual funds in various stocks and shares in order to make a good return on investment. They also diversified the risk of their investments by putting those funds into different schemes. Modes of investment in mutual funds are lump sum, systematic investment plan, systematic transfer plan, and switches. It involves some kind of risk factor like the risk-return trade-off, market risk, credit risk, inflation risk, interest rate risk, political/government policy risk, and liquidity risk.

Insurance is a tool of investment through which we can reduce our risk.

When you buy insurance, you purchase protection against unexpected financial losses. The insurance company pays you or someone you choose if something bad happens to you. It is also treated as a financial assistance provider. An insurance policy is a written contract between the policyholder (the person or company that gets the policy) and the insurer (the insurance company). Insurance is diversified in many categories such as health insurance, life insurance, motor insurance, etc. So in this project, we will cover life insurance and health insurance. The insurance companies are controlled by IRDA (Insurance Regulatory and Development Authority). Insurance policies are often in place for a selected period of time. This can be known as the coverage term. At the end of that term, we need to renew the coverage or purchase a new one. When we purchase insurance

Human Life Value (HLV) is the present value of all future income that you could expect to earn for your family. It is defined as the total income an individual expects to earn before retirement.

**Human Life Value (HLV) = (60-Current Age) \*Annual Income**

In the Indian market the life insurance plan is term plan, whole life policy, endowment plan, unit linked insurance plan, children's policy and annuity/-pension plan.

It is life insurance rule that states that policyholder should have sum assured as 20 times of his/her annual income. So that after death the nominee will be received 20 times of annual income so that next 20 years down the line they can be themselves stable in financial manner.

**Sum Assured = 20 x Annual income**

Health insurance is an insurance product which covers medical and surgical expenses of an insured individuals. In this insurance there is also two parties involved the first insurer and policy holder. Health insurance are of two types Indemnity based policy and Fixed benefit policy.

## LITERATURE REVIEW

Panda & Panda (2012), who compared the factorial analyses of investments made in mutual funds and insurance funds, risk and expectation are higher for stock options (mutual fund schemes) whereas return, knowledge level, and volatility rate are lower in each case. However, investors in insurance funds are cautious, receive the appropriate information at the right time, and make the right investment. Additionally, they advised considering how an investment choice may impact the present asset allocation strategy before making it. As time goes on, a person's life stage,

demands, and level of income vary. Therefore, periodic monitoring and review of investments should be required. Rajasekar (2013), investors' perceptions of their profiles, income, saving habits, investment preferences, and personality qualities were disclosed. A survey was conducted to understand the level of investor preference while taking into account several factors that influence investors' decision-making. The investors' extreme concern over the security, expansion, and liquidity of their assets was noticed. A renowned mutual fund institution's results and level of service has generally been met with great satisfaction by respondents. Vedhik and Khan (2016), looked at the degree to which investors were aware of the various investment possibilities at their disposal as well as the variables affecting their perception and preferences. They made an effort to rank the investment products according to the level of investor awareness of a number of previously identified investment products. The authors, in this study, investigated the interaction between awareness and socio-economic elements, pertaining to the investors and lastly, identified the factors impacting investor awareness and preferences. Muttapan (2006), The factors influencing investors' decisions to invest in mutual funds are the main focus of the article "Factors influencing Mutual Fund Investment Decision making." A 300-person sample was collected using judgmental sampling for the study, which was conducted in four cities of Tamil Nadu. The author ranked the variables affecting mutual fund selection using Garret's ranking method. The study's findings suggested the following: Investors prioritise tax exemption on mutual fund investments over public

sector funds and private sector funds, respectively. Past performance of the funds and degree of transparency are the factors that have the biggest impact on investors' decisions. Investors were concerned that the financial. Sindhi and Rao (2015), studied how various socioeconomic factors affected the investors' choice of investments. Hyderabad-based respondents to a survey provided the information. The findings indicated that socio-economic factors had a considerable impact on investors' investment behaviour. Vara Praad & Murali Krishna (2009) in their study analysed that the success of the insurance business depends on the role played by the intermediaries and changed marketing strategies to suit the customer needs. Prashant Shah's (2006) analysis, investing in mutual funds is the best alternative for investors who don't want to take any direct exposure to the market. In addition, securities markets assist investors in building their wealth over time. However, the investor must keep in mind that: "funding for Market risk is there for mutual funds" Simran Saini, Dr. Bimal Anjum and Ramandeep Saini (2011), The authors of the article "Investors' awareness and perception about mutual funds" concluded that mutual fund companies should design their strategies in a way that helps them meet the expectations of their investors. The AMC's ability to keep investors' trust will depend on continuous innovation in the types of programmes they offer. The study came to the conclusion that investors now have a favourable attitude of the mutual fund sector. Manasa Vipparthi and Ashwin Margam (2013), conducted a study titled "Perceptions of Investors on Mutual Funds: A Comparative Study on Public and Private

Sector Mutual Funds" with the aim of determining the factors influencing investors' perception and their decision to invest in public or private sector mutual funds, and to test whether their choice of public or private sector mutual funds is unaffected by their demographic profile. The results of the study revealed that the investor's choice of 63 investments is directly influenced by their marital status and line of work. It was discovered that the key elements that have the most influence on investors' perceptions are liquidity, flexibility, tax savings, service quality, and transparency, while financial and core product considerations are the motivating factors that give them the push they need to begin investing. Arifur and Kalikudrikar (2014), demographic characteristics affected the investing choices of retail investors. The study was conducted using the Chi-square test and Correlation analysis, and the authors came to the conclusion that there was a substantial association between demographic characteristics and the degree of risk taking abilities of investors.

### Research methodology and experimentation

#### Objectives of research

- To understand the role of mutual funds and insurance in a portfolio.
- To study on the mind-set of investors while investing in mutual fund or insurance.
- To compare the investing trends of Indian retail investors in mutual funds and insurance.

#### Sources of data

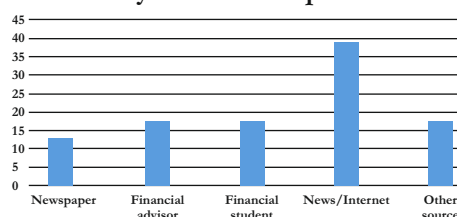
This report is based on primary data only. Primary data is important because it provides current trends and reliable results. It may be understood as the science of studying how research is done

scientifically. One of the most important uses of research methodology is that it helps in identifying the problems, collecting, analyzing, and interpreting the required data in an authentic way. It is the most popular and common instrument used in research. The basic objective of a questionnaire was to collect adequate information from the retail investor. It is also treated as pure information that we gathered from the investors. In order to fulfil the objectives of this study, a structured questionnaire has been developed to acquire data from retail investors or interested individuals.

Data has been presented with the help of tables, pie charts, and bar graphs. Initially, I made a matrix table to show the quantitative value of respondents; thereafter, with the help of that matrix, I made the pie charts and bar graphs of the respective questions.

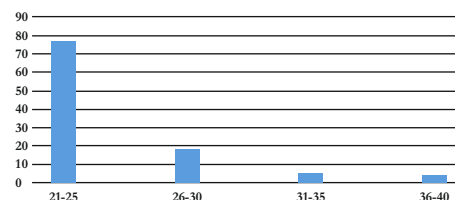
Indian retail investors either have invested in any of the investment tools or they are about to invest. In this survey, I have collected responses from 103 people, and they are basically from my network. Most of them are working, studying, or retired.

#### Data Analysis and Interpretation

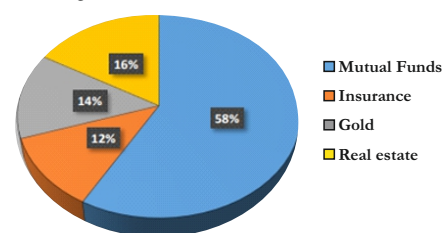


40% people influenced from news and internet it means these peoples have the access of technology. It means they became interested in investing because of the news and the internet, demonstrating people's awareness of technology. Following that, the remaining source of influence played an equal role. People are aware, but they

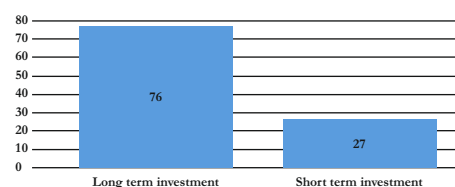
require a source to provide information on investments and other matters. So this can be done through awareness campaign.



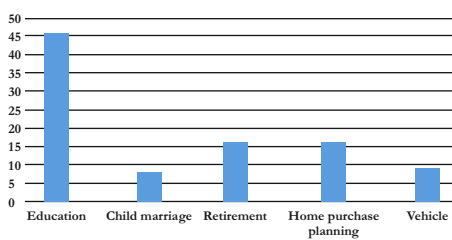
Regarding the investment age, individuals have remarked that it is quite important when it comes to compounding money. Start investing as soon as you have a source of money, we must emphasise. Therefore, the earlier the investment, the bigger the investment. In this case, 76% of respondents indicated that the age range of 21 to 25 is the ideal age to begin their investment, followed by the second range, which is 26 to 30.



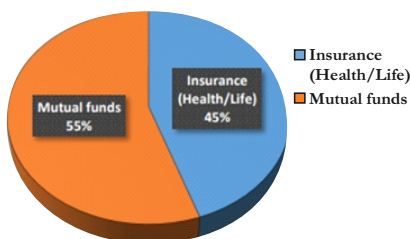
According to the survey, 58% of respondents believe that mutual funds are the best option because they are at least somewhat aware of how much potential they have compared to other investment tools. Following mutual funds, people believe that real estate is a good option for investment, even though it does not offer the same potential returns as mutual funds. Finally, the insurance industry is considered as a last resort for saving and investing.



As far as time horizon for the investment is concern 73.78% peoples prefer the most is long term investment. Because the longer the investment, the greater the returns. In the long run, the power of compounding can be seen in wonderful ways. The power of compounding plays a big role, especially in the long run. So the respondents said that the time horizon for the investment should be longer if we want a greater return out of that investment.

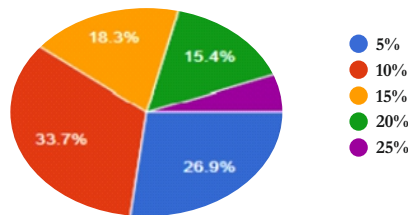


According to the respondent, the goal of investment education is more important than others. In today's scenario, education has become an expensive thing to obtain. Now, people generally have to pay much more for the education, and inflation plays a big role in making the education expensive. In India, education inflation is 20% annually; to defeat it, people want to invest or save for education thereafter, for the purchase of a home, for retirement, and all that.



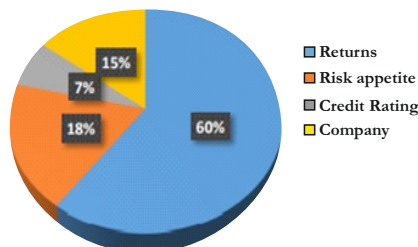
According to 55 % peoples, they prefer the most mutual funds over the insurance for the investment. It means mutual funds consider the good source of the getting good return only we have to spread the awareness about the mutual funds. As far as the insurance is concerned, it also has a good return, but

they couldn't provide as much as a mutual fund could.

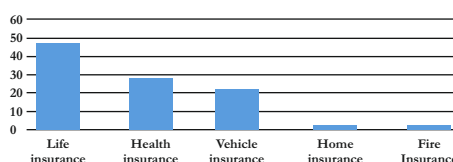


**FIGURE: 2.14 Figure of investor who invest their income**

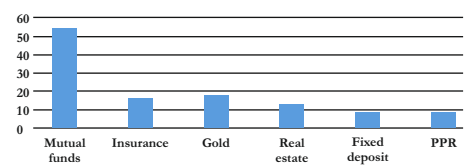
In terms of the percentage of our gross income we should invest, the majority of respondents believe we should invest 10% of our gross income in any investment tools for the future or any emergencies. Thereafter, 5% was preferred the second most by the people, which indicates they don't want to invest much more in investment tools. Only 15% of people say that investment should be 20% of the gross income, which is technically true in the case of investment.



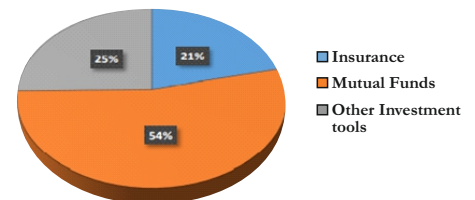
According to 60 % peoples considers returns the most important parameter while investing, they majorly conscious on the returns of the investment and they want to invests but the primarily they want know how much potential of this investment will provide me as a return. Thereafter they also consider the risk appetite for the second most important parameter they also want that risk should lesser with respect to investment.



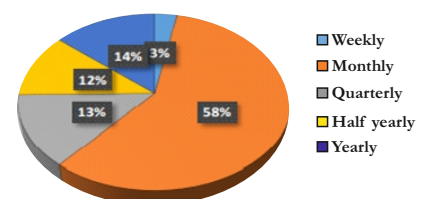
As far as insurance is concern peoples are asked which kind of insurance they have so near about 50 % of peoples said the life insurance then health and vehicles insurance. It means peoples are conscious on the aspect of life they consider the life insurance as good sources of investment so that we can protect of risk of life and after any bad happens our family will get financial assistance because life is quite unpredictable.



According to the respondent's point of view, they choose mutual funds over other investment tools. Mutual funds are an investment tool that is much more beneficial for Indian retail investors. Mutual funds are one of the growing investment tools in the Indian market.



As far as portfolio is concern, respondent says that there should be mutual funds more in comparison of others. So according to investors' perception, they consider mutual funds much more valuable in comparison to insurance and other investment tools. So most people prefer mutual funds over other investment tools.





As far as the frequency of premiums is concerned, the interested parties prefer the most monthly premiums. The frequency of premium also depends on the income if a person is salary based they prefer most monthly premium. Except monthly very less peoples considered such as weekly, quarterly, half yearly and yearly.

According to interested people, the frequency of premiums depends on the level of income as well.

### Conclusions

In this survey of knowing the people perception while investing in any investment tools, 90% people of the age of 18-25 got engaged and out of the total respondents 50% are male and rest 50% are female. Out of them 83% are of the income level of less than 5 lakhs. News/interest are one of the big who influenced 40% of total respondents. In the total respondent 57 % peoples are who never invested ever. Near about 75 % people preferred best age slab for the investment is 21-25 year. The people's affordability for the SIP ranges between Rs 1000 and Rs 5000. On the basis of return on investment, 58% of total respondents considered mutual funds to offer a good return, and 73.78% of people preferred long-term investments for getting ROI. The main purpose of investment is for education and home purchases. In the comparison of mutual funds and insurance, 55 % people selected mutual funds. As far as the part of income that people are going to invest, 34% of people preferred 10% of gross income. While investment 60% of total respondent said is a good parameter for the investment. 59 % of total respondent in the mutual funds and 47.53 of peoples have life insurance. The 53.39 % people said that mutual funds should in our portfolio as an

investment and 58% people preferred monthly SIP. At last people preferred more mutual funds than insurance in all aspects of investing elements.

Mutual funds now emerging as one of the best investment tools of Investment Company. Peoples are preferring more as investment in mutual funds because they consider, it has low risk in the longer duration of the investment as well as a great potential of investment. As financial market become much more sophisticated, investor needs a financial intermediary who provides the required knowledge and information about mutual funds. So in India there is lack of awareness of mutual funds as an investment tools but not peoples started shifting their money from bank to Asset Management Company for the higher return with lower risk. To combat the market's fierce competition, Asset Management Company introduced a plethora of mutual fund schemes based on risk, return, and investment duration.

So peoples prefer more mutual than other investment in bank, insurance, real estate etc. Now there is concern from investors, like confidence, so it will be cleared by financial experts only and by the real investor, who has already invested their money in mutual funds and received a surplus return from it.

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