

Effects of Market Segmentation and Bank Concentration on Mutual Fund Expenses and Returns: Evidence from Finland

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Abstract

A tremendous amount of research examines US mutual funds, but fund markets also thrive in other countries. However, research about these fast growing markets is lacking. This study addresses Finnish funds. Fast growth of the Finnish fund industry, strong bank dominance in the industry and recent EU membership make it an interesting market to examine. The Finnish fund market is also of particular interest since it had the fastest growth among the EU countries during 1996–2000. We find evidence that bank-managed and older funds charge higher expenses but investors are not compensated for paying higher expenses with higher risk-adjusted returns, suggesting a potential agency problem. Overall, Finnish fund expenses have decreased over time, consistent with EU membership reducing market segmentation and generating competition.

Keywords: *mutual funds; fees; returns; international*

JEL classification: *G15, G18, G20*

1. Introduction

Mutual funds are the dominant vehicle individual investors use to participate in US capital markets. With the dramatic growth in fund ownership in the 1990's has come a plethora of research concentrated in the areas of fund returns and fund costs. While

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