VERTICAL RELATIONS AND INVESTOR PROTECTION

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Abstract - Uninformed investors preferentially select distribution companies to purchase funds that suit their investment objectives, because they cannot evaluate each product themselves. Thus, the investment decision depends significantly on their chosen fund distributor's recommendation. It may lead to conflicts of interest between fund distributors and their customers because distribution professionals and their affiliated financial companies have an incentive to prioritize their profits over investors under oligopolistic market structures. This study demonstrates that money flows into a fund, fund management company and fund distributorhave significantly different patterns according to distribution channels, and this distinction is affected by vertical relations among financial companies. Money flows from affiliated distribution channels are less sensitive to the determinants of investment decision compared with non-affiliated ones. This result contributes by providing theinsight that changes in the incentive structure of distribution channels result in different outcomes in terms of investor protection and market competition under oligopolistic distribution structures.

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