

A Study on Investor Awareness and Perception Towards Mutual Funds in India

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Abstract—Financialization of the savings of households in India has led to an increased transition of people from investing in traditional low yielding physical and fixed income assets to professionally managed investments through the market mechanism. Mutual funds have come up as the leading means for democratising the process of accessing capital markets by retail investors. In this context, this study is a comprehensive empirical analysis of investor awareness, perceptions of risk and return, channels of operations, and behavior among urban and semi-urban investor segments in India. Based on an extensive synthesis of primary empirical studies ($n=250$ for western/national urban cities and $n=105$ for regional cities) and secondary databases, the research uses descriptive statistics, Chi-Square (2) test of independence, One Way ANOVA and multiple linear regression models to study retail investment dynamics. The results show that although investor awareness and faith in wealth accumulation over time is more than 65%, their detailed understanding of issues such as cost of operations and asset allocation remains unclear. Variables, namely financial literacy ($=0.318$, $p<0.001$), investment criterion match ($=0.315$, $p<0.001$), and risk perception ($=0.308$, $p<0.001$) contribute 91.6% of variance ($R^2=0.916$, $F=530.50$) to investors' decision-making..

Index Terms—Mutual funds, investor awareness, investor perception, systematic investment plan (SIP), behavioral finance, financial literacy, capital markets in India, multiple linear regression.

I. Introduction

The conversion of the surplus accumulated at home into corporate capital formation is an essential factor of growth in emerging market economies. In the past, savings by private households in India were primarily held in physical, non-financial forms, such as physical gold and real estate or fixed return investments, including the postal saving schemes of the government. Although these methods protected savings from erosion, the real returns on fixed income investments were often lower than the domestic rate of inflation.

The financial liberalization process that was initiated in 1991, along with the setting up of statutory regulation by the Securities and Exchange Board of India (SEBI), transformed the financial structure in India. The mutual fund industry was created as the leading financial intermediary to close the gap between retail savings and corporate capital market financing. By combining resources from thousands of individual investors, mutual funds provide retail investors the benefit of professional investment management, including research, sector diversification, automatic portfolio rebalancing, high liquidity via net asset value trading, and transaction cost savings.

Although significant progress has been made in relation to Systematic Investment Plan (SIP) flows on a monthly basis and highest-ever Assets Under Management (AUM), the level of mutual fund penetration in India is well below 20% of GDP, which is quite behind compared to the penetration in developed countries, where the penetration rate is more than 60%. The reason behind the same lies in behavioral frictions, cognitive risk aversion, information asymmetry, and differential financial literacy.

Research Objectives

1. This study is intended to analyze retail investors' awareness concerning mutual fund operation, types of schemes, and risk-return characteristics.
2. The aim is to evaluate the impact of socio-economic factors (such as age composition, gender, occupation, financial status, and saving behavior) on investment behavior.
3. To ascertain the comparative importance of various primary motivators, such as tax benefits, liquidity, safety, diversification, and yields, in determining the scheme.
4. For identification of issues in operations faced during scheme holding, portfolio management, and redemptions.
5. To empirically examine relationships between demographic variables, operational constraints, and behavioral decision making processes utilizing inferential econometric analysis.

II. Evolution and Structural Architecture of Mutual Funds in India

The historical development of India's mutual fund ecosystem reflects deliberate regulatory design and market maturation spanning four distinct eras:

- **Phase I (1964–1987) – Monopoly Era:** Unit Trust of India had been created through legislation with the help of Unit Trust of India Act 1963 and was under the regulation of Reserve Bank of India (afterwards Industrial Development Bank of India). There was only one way for households to get into the business of equity investments, which was the US-64 scheme of Unit Trust of India that had raised a capital of ₹6,700 crores by 1988.
- **Phase II (1987–1993) – Public Sector Expansion:** Mutual funds could now be set up by publicly held commercial banks and state insurance companies as a means to promote participation in the markets. The SBI started its SBI Mutual Fund in 1987, and then followed Canbank, Punjab National Bank, Indian Bank, Bank of India, Life Insurance Corporation, and General Insurance Corporation, thus adding to the total assets in the market at the time to ₹47,004 crores.
- **Phase III (1993–2003) – Private and Foreign Participation:** The issuance of SEBI Mutual Fund Regulations in 1993 enabled both Indian and foreign asset management firms to enter into the financial sector via Kothari Pioneer in 1993. The regulations introduced in 1996 highlighted the significance of disclosure, net worth, and valuation. Till January 2003, a total of 33 mutual fund houses had a corpus of ₹1,21,805 crores.
- **Phase IV (2003–Present) – Consolidation and Digital Democratization:** This is due to the enactment that abolished the UTI Act in the year 2003 where the UTI was divided into two parts namely the Specified Undertaking of UTI and the UTI Mutual Fund Ltd. Subsequent reforms include direct plans with no commission, electronic KYC system, UPI transaction, and pan-India campaigns such as "Mutual Funds Sahi Hai".

Structural Trust Framework

Following SEBI's guidelines for mutual funds, every mutual fund organization in India operates on the basis of three layers of fiduciary structure, aimed at avoiding conflict of interests:

1. **The Sponsor:** The main promoter of the trust organization that adheres to regulatory requirements such as having at least five years of experience in the financial sector, a positive net worth position, and no regulatory defaults.
2. **The Board of Trustees:** Undertakes absolute fiduciary duty on behalf of unit holders of the retail scheme. Trustees are independent in overseeing the asset management company, ensuring compliance with statutory investment limits, securing physical assets, and reporting semi-annually to SEBI.

3. **The Asset Management Company (AMC):** Manages the portfolio as the approved investment manager. The AMC employs dedicated research teams and portfolio managers, calculates Net Asset Values daily, manages portfolio orders, and makes compliance disclosures.

4. **Independent Custodians and Registrars:** Legal custody of the portfolio of securities remains the responsibility of custodians, whereas RTAs keep the master ledger of investors and process their dividends and redemptions.

III. Literature Review

Behavioral economics along with cognitive biases in mutual funds selection have been studied through several academic studies:

- **Awareness and Financial Literacy Gaps:** As suggested by Sodi and Bharucha (2021), even though there is the creation of brand awareness through national marketing among all groups of people, there is technical information regarding the expense ratio, exit load charge, and the long-term capital gain charge available among only the affluent and educated. According to Vipin Kumar and Bansal (2014), retail investors ignore risk measurement variables such as the Sharpe ratio, beta, and standard deviation but rely on recommendations of intermediaries and performance results.
- **Determinants of Investment Behavior:** Gawande et al. (2022) indicate that after surveying 250 investors who invest in mutual funds, they found out that decisions taken are influenced by financial literacy, criterion selection, and risk tolerance, where over 45% of participants are found to be of moderate risk. Pranjana & Palani (2021) carried out a study in regional investor hot spots and established that investors are mostly acquired through digital platforms (43%) and referrals (22%).
- **Attitude Toward Risk and Traditional Channels:** Ganapathi's empirical study (2015) along with Bhavik & Patel (2014) confirmed the importance of capital safety, liquidity, and tax benefits (section 80C), wherein middle income investors use mutual fund to act as a barrier for the fluctuations of the stock market. According to Rajesh Trivedi et al., the flexibility of time of liquidation, micro investment criteria, and disposable liquidity were major determinants for the product adoption, thus proving the importance of early financial literacy in the curriculum.

IV. Research Methodology and Econometric Specification

This research study has been designed empirically, descriptively, and diagnostic with respect to the use of primary survey tools distributed among a wide variety of urban and semi-urban retail investor segments. The sampling technique used was stratified and convenient sampling to include veteran

investors in urban markets and new semi-urban retail investors.

In order to assess the link between perceptions of the investors and their portfolio decisions, a Multiple Linear Regression model was estimated by taking Overall Investment Behavior (Y) as the dependent variable against five explanatory variables of Risk Perception (X1), Return Perception (X2), Investment Criteria (X3), Awareness Level (X4), and Financial Literacy (X5).

The mathematical model is represented as:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$$

Where β_0 represents the intercept, β_1 through β_5 represent unstandardized regression slope parameters, and ε denotes the stochastic error term.

V. Empirical Findings and Inferential Analysis

A. Econometric Estimation and Regression Results

Empirical analysis of the model based on N = 250 active retail market participants produces strong explanatory power. The estimated regression equation is expressed as:

$$Y = -2.057 + 1.258(X_1) + 0.938(X_2) + 1.232(X_3) + 0.797(X_4) + 1.331(X_5)$$

The entire econometric model indicates an exceptionally high level of the multiple correlation coefficient that equals $R = 0.957$, with the coefficient of determination $R^2 = 0.916$ (adjusted $R^2 = 0.914$ and the standard error of estimate = 1.35697). The ANOVA for the model fit indicates an extremely high F-value that equals $F = 530.500$ (df = 5, 244) and $p < 0.001$.

The evaluation of the parameter weights of individual parameters indicates that all five perceptual dimensions have statistically significant influence on...

- **Financial Literacy (X₅):** Becomes the most significant factor ($\beta = 0.318$, Unstandardized B = 1.331, Standard Error = 0.086, $t = 15.560$, $p < 0.001$) to indicate that financial literacy holds the greatest influence on retail investment.
- **Investment Criteria (X₃):** Represents the second most effective determinant ($\beta = 0.315$, Unstandardized B = 1.232, Standard Error = 0.096, $t = 12.833$, $p < 0.001$), indicating that the investors that use clear criteria for selecting stocks invest more effectively.
- **Risk Perception (X₁):** Strongly positively influences ($\beta = 0.308$, Unstandardized B = 1.258, Standard Error = 0.089, $t = 14.089$, $p < 0.001$), thus proving that the calibration of realistic risks promotes investments and not discourages them.
- **Return Perception (X₂):** Contributes a positive statistical significance effect ($\beta = 0.257$,

Unstandardized B = 0.938, Standard Error = 0.083, $t = 11.300$, $p < 0.001$).

- **Awareness Level (X_4):** Makes an important contribution ($\beta = 0.190$, Unstandardized B = 0.797, Standard Error = 0.091, $t = 8.802$, $p < 0.001$).

The coefficient $\beta_0 = -2.057$ ($t = -5.783$, $p < 0.001$) shows that without financial literacy, proper investment criteria, and market awareness, an individual's behavior to join mutual fund investments will be negative.

B. Demographic and Behavioral Distributions in Text

- The socio-demographic data reveals that the key elements of the retail investors' pool are represented by people who are in their middle careers:
 - According to survey statistics, persons aged between 30 and 40 make up the dominant demographic group, accounting for 49.6% in the national urban samples and 62.9% in the regional samples. Individuals below the age of 30 years comprise 11.2% to 24.8%, while those above 40 or 50 years of age make up the rest.
 - The gender ratio is still skewed toward males in both national (87.2%) and regional (70.5%) surveys, hence leaving room for further increase of financial inclusion for women in the economy.
 - Professionally, salaried professionals from both governmental and private organizations comprise 46.7% to 48.0% of the surveyed, while businessmen represent 25.2% to 41.0%.
 - With regards to mechanisms of investments, 61.0% of the surveyed conduct their purchases directly via digital AMC portals and apps, while 39.0% use traditional brokers.
 - As far as the investment instruments are concerned, SIPs are chosen by 56.0% of respondents, while 44.0% use lump-sum investments. Additionally, 55.0% of them opt for open-ended schemes, whereas 45.0% for closed-end instruments.

C. Inferential Hypothesis Testing

Two additional statistical tests evaluate demographic relationships and investor sentiment:

1. **Age vs. Income Demographics (One-Way ANOVA):** The analysis for One-way ANOVA to find the relationship between Age Groups and Income Brackets of the respondents resulted in an F-value of 0.499 with a p-value of 0.609 ($df = 3, 102$). Since the p-value is greater than 0.05, we accept the null hypothesis, showing that there is no statistically significant relationship between age group and income bracket in deciding mutual fund investment interest.
2. **Operational Friction vs. Fund Sentiment (Chi-Square Test):** Pearson Chi-Square test of independence of operational problems influencing investors' view on mutual funds produced $\chi^2 = 16.308$ ($df = 18$, $p = 0.571$), Likelihood Ratio = 19.275, $p = 0.375$. Since $p > 0.05$, we accept the null hypothesis. Even though there are operational problems for retail investors, they do not change the

basic belief that mutual funds can be an efficient tool for creating money.

Fig. 1. Percentage Distribution of Key Operational and Structural Friction Points Encountered by Retail Investors (N = 105)

Delay in Selling Unit 22.0% Fees & Commission 20.0% Market Tracking Issues 19.0% Low Disposable Income 15.0% Poor Broker Service 10.0% Poor AMC Service 7.0% No Local Branch 5.0% 0% 5% 10% 15% 20% 25% Percentage of Respondents (%)

VI. Discussion

The empirical findings reveal four primary structural dynamics across the Indian retail market:

1. **The 30–40 Age Demographic as the Core Growth Engine:** Investors falling in the age bracket of 30 to 40 account for between 50% to 63% of active retail investors. Such investors have stable earnings from their careers and have an investment horizon that is appropriate for equity investing..
2. **Growth of Direct Digital Investment Channels:** More than 61% of the retail respondents today conduct mutual funds deals directly using online systems. This is despite the fact that this change is due to the reduced cost and ease of process, since 39% still resort to the help of middlemen.
3. **The Investment Horizon Disconnect:** Although 56% of individuals invest on a monthly basis through the automatic system of SIPs to enjoy the rupee-cost averaging, 43% keep their investments for a period less than two years. This makes their investment horizon incompatible with that advised for equities compounding for multiple years.
4. **Impact of Operational Friction Points:**As shown in Fig. 1 below, redemption lag (22%) and unclear fees or commissions (20%) are the major causes of investor dissatisfaction. As direct retail involvement increases, fund managers will have to provide more transparent disclosure on expense ratios and quicker liquidity returns.

VII. Conclusion and Strategic Policy Recommendations

A. Conclusion

The research was conducted to understand the level of awareness and perception of behavioral factors that influence retail participation in mutual funds in India. The findings from this research have validated the fact that although there is a high level of awareness and confidence regarding the generation of wealth over the period, there is still a gap in terms of practical knowledge about fees, asset allocation, and duration of investment required. Econometric regression analysis proves that financial literacy and proper criteria for investments and risks are the critical variables.

B. Strategic Recommendations

1. **For Asset Management Companies (AMCs):** It must evolve from marketing following returns to providing explanations about risks and risk management. There must be an adoption of automated bi-weekly SMS updates and summaries of expense ratios and portfolio performance.
2. **For Regulatory Bodies (SEBI & AMFI):** Education programs should be extended to Tier-2, Tier-3, and semi-urban areas where the preferred investment is bank fixed deposits. The regulators must bring in standardization in terms of processing for equity schemes to arrive at a T+1 cycle to address liquidity issues.
3. **For Financial Intermediaries:** The models adopted by distributors should change to include goal-based financial planning that focuses on matching investment decisions to specific 5-to-10 year targets to prevent early redemptions from temporary market downturns.

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