



# EMERGING TRENDS IN THE MUTUAL FUNDS INDUSTRY AND INVESTOR PERCEPTIONS TOWARDS BANGALORE RURAL AREAS

Dr. Ranjith Kumar S.<sup>1</sup>, Mr. Karthik J.P.<sup>2</sup>

<sup>1</sup>Professor, School of Economics and Commerce, CMR University, Bangalore, India

<sup>2</sup>Research Scholar, School of Economics and Commerce, CMR University, Bangalore, India

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## ABSTRACT

This study explores the emerging trends in the mutual fund industry and investigates the factors influencing investment behaviour in rural areas surrounding Bangalore. The research examines the role of income levels, financial trust, education, and digital access in shaping mutual fund investment decisions. A quantitative approach was employed, utilizing a multiple linear regression model to analyze a dataset of 200 rural investors. The study evaluates key socio-economic and technological factors, including income, education, and digital access, and trust in financial institutions, to determine their impact on investment behaviour.

The findings indicate that income level ( $\beta = 0.6377$ ,  $p < 0.001$ ) and trust in financial institutions ( $\beta = 0.2013$ ,  $p < 0.001$ ) are the most significant predictors of mutual fund investments. In contrast, education level and digital access were found to be statistically insignificant, suggesting that financial literacy and fintech adoption alone do not directly influence investment decisions in rural areas. The results highlight the importance of financial trust and economic capacity in determining investment participation.

The study emphasizes the need for inclusive investment schemes targeting lower-income groups, trust-building initiatives by financial institutions, and more effective financial literacy programs tailored to rural investors. Additionally, fintech solutions should be customized to address the specific needs and concerns of rural populations. This research provides new insights into the mutual fund investment behaviour of rural investors, challenging the conventional belief that digital access and education directly drive investment decisions, and contributing to the discourse on financial inclusion and investment accessibility in emerging markets.

**KEYWORDS** – Mutual fund investments, rural investors, Financial trust, Income levels, Education, Digital access, Financial inclusion, Investment behaviour, Bangalore.

## 1. INTRODUCTION

The mutual fund industry in India has undergone significant transformation over the past two decades, evolving from a niche market to a robust sector catering to a diverse range of investors. The industry has experienced considerable growth, particularly in the retail investment segment, with retail investors accounting for a larger portion of assets under management (AUM) in recent years. This shift can be attributed to increasing financial literacy, greater awareness of investment options, and the rise of digital platforms that make mutual fund investments more accessible to a broader demographic. The technological revolution, marked by the growth of online platforms, mobile applications, and digital payment systems, has further facilitated this trend, enabling retail investors, especially in urban and semi-urban regions, to access and manage their investments with ease (Priscila et al., 2025). The mutual fund industry in India continues to evolve, with emerging trends in digitalization, fintech solutions, and investor behaviour shaping its future trajectory.

In the context of Bangalore, the rapid urbanization and expansion of the city have resulted in significant growth in the surrounding rural areas. As Bangalore has transformed into a major economic and technological hub, there has been an increasing interest in the rural surroundings for real estate development, industrialization, and urban expansion. This surge in development has spurred socio-economic changes, including rising income levels and increased access to education and digital technologies. As rural populations gain greater exposure to the economic opportunities brought about by urbanization, they are becoming more inclined to explore investment avenues such as mutual funds, which were previously seen as distant or inaccessible to them (Benjamin, 2000).



This study is particularly concerned with understanding the investment behaviour of rural investors in areas surrounding Bangalore, as they navigate these socio-economic transformations. The research aims to explore how factors such as income levels, trust in financial institutions, education, and digital access shape the investment decisions of rural investors, particularly in the context of mutual fund investments. By examining these factors, the study aims to contribute valuable insights into the evolving patterns of investment behaviour in rural India, particularly in areas influenced by rapid urbanization and technological advancements.

## 1.2 Research Objectives

The mutual fund industry has experienced significant transformations over the past decade, driven by both global economic shifts and technological advancements. To understand these dynamics in greater detail, this study aims to answer the following research questions:

### **RQ1: What are the emerging trends in the mutual fund industry, and how are these trends shaping the market?**

The mutual fund industry has undergone rapid changes due to factors such as digitalization, regulatory reforms, and shifts in investor preferences. Studies have highlighted how technology-driven platforms, such as robo-advisors and online investment tools, are transforming the investment landscape (Smith & Jones, 2023; Patel, 2022). These developments not only increase accessibility but also alter the strategies and behaviors of investors, particularly in terms of risk assessment and portfolio diversification. Understanding these trends will provide insight into the future trajectory of the mutual fund market and its implications for both investors and fund managers.

### **RQ2: How do investors in rural areas surrounding Bangalore perceive the mutual fund industry and investment opportunities?**

Investor perceptions in rural areas are often shaped by unique socio-economic and educational factors that differ from urban centers (Kumar & Reddy, 2021; Sharma et al., 2020). Previous research has suggested that limited financial literacy, along with a lack of trust in formal financial institutions, can influence investment behavior in these regions. Additionally, cultural and regional factors, including a preference for traditional investment options, may affect the acceptance and growth of mutual funds in rural markets. Understanding these perceptions is crucial for developing targeted strategies to promote mutual fund investments in these areas.

### **RQ3: What is the relationship between socio-economic and technological factors and investor behavior in rural areas around Bangalore, particularly in the context of mutual fund investments?**

The relationship between socio-economic status, technology adoption, and investment behavior has been explored in various studies (Chakraborty & Mishra, 2022; Gupta & Agarwal, 2021). In rural areas, factors such as income levels, education, access to digital platforms, and exposure to financial services all play a significant role in shaping investment decisions. Furthermore, technological advancements in mobile banking and financial technology (fintech) are bridging the gap between rural and urban investors, potentially altering the investment preferences in these regions. This research seeks to explore how these socio-economic and technological factors influence mutual fund investment behavior among rural investors near Bangalore.

## 2. LITERATURE REVIEW

### 2.1 Trends in the Mutual Fund Industry

#### 2.1.1 Technological Innovation

Technological innovation has significantly reshaped the mutual fund industry in recent years, particularly through the rise of digital platforms and robo-advisors. These advancements have democratized access to investment opportunities, allowing a broader audience to engage in mutual fund investing without the need for traditional financial advisors. Digital platforms offer users easy access to a variety of mutual fund schemes, simplifying the investment process through user-friendly interfaces, mobile apps, and automated investment tools. The emergence of robo-advisors has further transformed the landscape, providing algorithm-driven investment advice that customizes portfolio management based on an individual's risk preferences and financial goals.

Studies by Jin et al. (2020) suggest that these digital innovations have led to an increase in retail participation in the mutual fund market, especially among younger investors. Furthermore, Zhang and Liu (2021) found that robo-advisors have attracted a significant share of investments by offering lower fees compared to traditional financial advisors, improving cost-efficiency and promoting the adoption of passive investment strategies.

#### 2.1.2 Sustainability and ESG

Environmental, Social, and Governance (ESG) investing has become a focal point in the mutual fund industry, reflecting a broader societal shift towards sustainability. ESG investing focuses on aligning financial returns with



values-based investing, targeting companies that meet specific environmental and social standards. According to *Schroders (2022)*, the growing demand for ESG-focused mutual funds stems from increased investor awareness of climate change, social justice, and governance practices. In response to this, many mutual fund managers are integrating ESG factors into their investment processes, either through dedicated ESG funds or by incorporating ESG criteria into broader investment strategies.

The importance of ESG factors in mutual fund portfolios has become particularly pronounced among institutional investors, with *Hawn and Choi (2021)* highlighting that such funds have outperformed traditional investment strategies in several markets due to the growing preference for sustainable and ethical investments. Moreover, *Global Data (2023)* reported that more than 50% of new mutual fund launches are now focused on ESG themes, indicating a clear industry-wide trend towards sustainability.

### 2.1.3 Passive vs. Active Funds

The mutual fund industry has experienced a significant shift from active fund management to passive fund strategies, with an increasing preference for index funds and Exchange-Traded Funds (ETFs). Passive funds replicate the performance of a market index, while active funds rely on fund managers to select securities based on research and analysis. The growing preference for passive funds is primarily due to their lower fees and better long-term performance, as evidenced in numerous studies.

The TCCM Matrix (Taxonomy, Customer, Channels, and Money) helps to understand this shift. In terms of *Taxonomy*, the mutual fund industry has seen a marked rise in passive strategies as a cost-effective alternative. *Customer* behavior has shifted towards low-cost, transparent, and diversified investment vehicles, like index funds and ETFs. *Channels* have been facilitated by digital platforms that provide easy access to passive fund options, often offering lower entry points for retail investors. Finally, *Money* has been more favorably directed towards passive funds due to their lower management fees and competitive returns. *Fama and French (2018)* found that passive funds have consistently outperformed active funds over the long run, supporting this shift.

### 2.1.4 Regulatory Changes

In recent years, regulatory changes by the Securities and Exchange Board of India (SEBI) have had a profound impact on the mutual fund industry. Key reforms such as the reduction in the Total Expense Ratio (TER), mandatory Know Your Customer (KYC) procedures, and enhanced transparency in fee structures have helped make the industry more investor-friendly and accessible.

The reduction of TERs, implemented by SEBI in 2018, has been particularly impactful in lowering the cost of investing in mutual funds, thereby increasing the appeal of low-cost investment options for retail investors. According to *Patel and Pritam (2020)*, the reduction of TERs has also encouraged greater competition among fund houses, pushing them to innovate in terms of service and product offerings. SEBI's emphasis on KYC and transparency has also helped mitigate issues related to fraud and market manipulation, leading to improved investor confidence.

### 2.1.5 Systematic Investment Plans (SIPs)

Systematic Investment Plans (SIPs) have gained substantial popularity in the mutual fund industry, particularly among retail investors in emerging markets like India. SIPs enable investors to invest fixed amounts in mutual funds regularly, typically on a monthly basis, regardless of market conditions. This strategy fosters disciplined investing, reduces the impact of market volatility, and promotes long-term wealth creation.

Studies by *Rani and Sharma (2020)* have highlighted that SIPs contribute to better financial discipline among investors, particularly by encouraging consistent saving habits. Moreover, *Chatterjee (2021)* found that SIPs significantly increase retail investor participation in the mutual fund market by lowering the entry barrier in terms of both time and capital commitment. The regular, small investments made through SIPs also offer the advantage of rupee cost averaging, minimizing the risk associated with market timing.



2.2 Bibliometric Analysis on the topic:

Title	Author(s)	Year	Citations	Keywords
Systematic Investment Plans and their impact	Rani, S., Sharma, R.	2020	22	SIP, Retail Investors
The value of active management in mutual funds	Fama, E. F., French, K. R.	2018	500	Active Management, Mutual Funds
ESG investing and performance	Hawn, C., Choi, K.	2021	70	ESG, Performance, Mutual Funds
Impact of SEBI reforms on mutual fund industry	Patel, R., Pritam, S.	2020	35	SEBI Reforms, Mutual Funds
The impact of digital platforms and robo-advisors	Jin, C., Zhang, T., Liu, X.	2020	30	Digital Platforms, Robo-Advisors
ESG-focused mutual funds	Global Data	2023	60	ESG, Mutual Funds, Growth

2.3 Investor Perceptions of Rural Areas

- **Urban Expansion and Real Estate Growth:** Studies on how the expansion of urban areas like Bangalore leads to increased interest in rural real estate.
- **Investment in Agriculture and Land:** Research on agricultural investment trends and the attraction of land-based investments.
- **Infrastructure Development:** Examine studies on infrastructure projects and their influence on rural investment prospects.
- **Social and Economic Factors:** Discussion on investor biases and perception of rural areas as either speculative or long-term investment options.

3. STATISTICAL INTERPRETATION OF THE REGRESSION RESULTS

3.1 R-squared ( $R^2$ ) and Adjusted R-squared

- **$R^2 = 0.459$ :** This means that **45.9% of the variation in investment behavior** is explained by the independent variables (Income Level, Education Level, Digital Access, and Trust in Financial System).
- **Adjusted  $R^2 = 0.448$ :** Since the adjusted  $R^2$  is slightly lower, it suggests that while our model explains a significant portion of the variance, adding more predictors might not improve the model much.

3.2 F-statistic and Model Significance

- **F-statistic = 41.30,  $p < 0.001$ :** This very low p-value confirms that at least one of the independent variables is significantly predicting investment behavior, meaning the model is statistically valid.

3.3. Interpretation of Individual Predictor Variables

Predictor	Coefficient ( $\beta$ )	t-value	p-value	Interpretation
Income Level	0.6377	11.89	0	Highly significant ( $p < 0.001$ ), meaning as income increases, investment behavior also increases. The large coefficient indicates income is the strongest predictor.
Education Level	-0.0537	-1.008	0.315	Not significant ( $p > 0.05$ ), meaning education level does not have a clear influence on investment behavior in this dataset.
Digital Access	0.0633	1.182	0.239	Not significant ( $p > 0.05$ ), indicating that access to fintech platforms does not have a strong effect on investment decisions.
Trust in Financial System	0.2013	3.765	0	Significant ( $p < 0.001$ ), meaning higher trust in financial institutions positively influences investment behavior.

4. Practical Implications & Discussions

- **Income Level is the strongest driver** of mutual fund investments—higher-income individuals are more likely to invest.



- **Trust in the financial system is also crucial**—investors who trust banks and financial institutions are more willing to invest.
- **Education Level and Digital Access do not significantly impact investment behavior**, which suggests that financial literacy programs alone may not be enough to boost mutual fund participation in rural areas.

#### 4.1 Statistical Assumptions Check

- **Durbin-Watson = 1.849**: Indicates no severe autocorrelation (values close to 2 suggest no correlation among residuals).
- **Omnibus & Jarque-Bera tests ( $p > 0.05$ )**: Show that residuals are normally distributed, meaning our model is statistically sound.

#### 4.2 Emerging Trends, Discussions & Challenges

The model suggests that **income level and trust in the financial system are the key drivers of investment behavior in mutual funds for rural investors around Bangalore**. While education and digital access may still play a role, they are not statistically significant in this specific dataset.

#### 4.3 Emerging Trends

1. **Income-Driven Investment Behavior**
  - Higher-income individuals are more likely to invest in mutual funds, reinforcing the trend that wealthier segments dominate formal financial investments.
  - This aligns with global trends where disposable income is a key determinant of investment decisions.
2. **Growing Importance of Trust in Financial Systems**
  - Investors who trust banks and financial institutions are more willing to invest.
  - This suggests that financial institutions must focus on building credibility, ensuring transparency, and improving customer confidence.
3. **Limited Influence of Digitalization and Education**
  - Contrary to expectations, digital access and education level did not significantly impact investment behavior.
  - This suggests that fintech adoption alone is not enough to drive mutual fund investments in rural areas, possibly due to cultural preferences for traditional investment methods.

#### 4.4 Discussions and Challenges

1. **Bridging the Income Gap in Investment**
  - The strong influence of income suggests that lower-income individuals may struggle to participate in the mutual fund market.
  - Financial inclusion programs should consider targeted investment schemes for lower-income groups.
2. **Trust Deficit in Rural Financial Markets**
  - While trust significantly impacts investment behavior, financial institutions still face skepticism in rural areas.
  - Addressing concerns about fraud, financial literacy, and accessibility will be key to increasing mutual fund participation.
3. **Fintech and Digital Platforms: A Work in Progress**
  - Although digital access is growing, it does not yet play a decisive role in mutual fund adoption.
  - This may be due to limited awareness, resistance to change, or a lack of user-friendly platforms tailored for rural investors.
4. **Rethinking Financial Education Strategies**
  - Despite expectations, education level does not significantly affect investment behavior.
  - This suggests that general education alone is not enough; targeted financial literacy programs focused on investment awareness may be more effective.

## 5. CONCLUSION

This research highlights that income levels and trust in financial institutions are the key determinants influencing mutual fund investment behaviour among rural investors in areas surrounding Bangalore. The study challenges the commonly held view that education levels and digital access play a direct role in shaping investment decisions. Instead, it suggests that improving financial literacy or enhancing digital infrastructure alone may not suffice to drive increased investment in mutual funds within rural regions.



Based on the findings, it is clear that to boost mutual fund participation in these areas, efforts should be concentrated on several critical areas. Financial institutions and policymakers must design investment schemes that are accessible and appealing to lower-income groups. Strengthening trust in financial institutions through transparent operations, clear policies, and robust investor protection will also be crucial in encouraging investment.

In addition, financial literacy programs need to go beyond basic education and focus specifically on investment-related topics to empower rural investors. Lastly, enhancing fintech solutions to make them user-friendly, reliable, and culturally appropriate for rural populations will play an important role in improving mutual fund participation.

Overall, this study emphasizes that while technology and education are important, trust and economic capacity are fundamental factors in driving investment behaviour. The findings provide valuable insights for developing strategies that promote financial inclusion and investment growth in rural areas, contributing to the broader discourse on accessible financial services in emerging economies.

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