

**A STUDY ON FINANCIAL LITERACY AND ITS IMPACT ON MUTUAL FUND INVESTMENT TRENDS**

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**Abstract:**

Financial literacy has become a critical determinant of retail investor behaviour in modern financial markets. With the rapid expansion of financial products and increasing participation in capital markets, investors require adequate financial knowledge to make informed decisions. In emerging economies such as India, mutual funds have gained prominence as an accessible investment avenue due to their diversification benefits, professional management, and regulatory oversight by the Securities and Exchange Board of India (SEBI). Despite this growth, limited financial awareness among many investors continues to influence investment preferences, fund selection, and long-term investment orientation.

This study investigates the relationship between financial literacy and mutual fund investment trends among retail investors. Using secondary data from the Association of Mutual Funds in India (AMFI), financial literacy surveys, and capital market databases, the study applies correlation and regression analysis to examine the impact of financial knowledge on investment participation, SIP adoption, and overall industry growth. The results indicate a strong positive relationship between financial literacy and mutual fund investments, with higher literacy levels significantly enhancing investor participation and systematic investment behaviour. The study contributes to the literature by demonstrating the importance of financial awareness in shaping investment decisions and provides policy insights for strengthening investor education programs and promoting sustainable capital market participation.

**Keywords:** Financial Literacy, Mutual Fund Investment, Retail Investors, Investment Behaviour, Investor Education, Capital Markets

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**Introduction**

The transformation of global financial markets over the past two decades has significantly altered the investment landscape for individual investors. Advances in financial technology, the proliferation of investment instruments, and growing integration of capital markets have expanded opportunities for wealth creation. In this context, financial literacy has become a fundamental requirement for individuals seeking to participate effectively in financial markets. Financial literacy refers to the ability of individuals to understand financial concepts, evaluate investment alternatives,

and make informed decisions regarding saving and investment activities. For retail investors, this capability plays a decisive role in determining investment choices, risk tolerance, and portfolio diversification.

Among various investment avenues available to retail investors, mutual funds have emerged as a popular financial instrument. Mutual funds offer several advantages such as professional fund management, risk diversification, liquidity, and affordability. In countries like India, the mutual fund industry has experienced substantial growth over the past decade. Regulatory

initiatives introduced by the Securities and Exchange Board of India and investor awareness programs conducted by the Association of Mutual Funds in India have encouraged wider participation in mutual fund schemes. Despite these developments, the participation rate of retail investors remains relatively low compared to developed financial markets.

Ideally, investors with adequate financial literacy should possess the ability to understand the benefits and risks associated with different financial products and accordingly allocate their savings across diversified portfolios. However, the reality is that a considerable segment of retail investors lacks the necessary financial knowledge required to make rational investment decisions. Limited understanding of financial products, misconceptions about market risk, and inadequate awareness about investment mechanisms often discourage individuals from investing in mutual funds. As a result, many investors either remain outside formal financial markets or prefer traditional savings instruments with relatively lower returns.

Previous research has attempted to explore the relationship between financial literacy and investment behaviour. Several studies have highlighted that financially literate individuals are more likely to invest in diversified financial assets, including mutual funds, equities, and retirement funds. However, many of these studies focus primarily on developed economies or examine financial literacy in a broader financial inclusion context. Consequently, limited empirical evidence exists regarding how financial literacy specifically influences mutual fund investment trends within emerging markets.

The lack of adequate financial literacy can produce both direct and indirect consequences for investors and financial markets. At the individual level, inadequate financial knowledge may result in poor investment decisions, lower returns, and insufficient long-term

wealth accumulation. At the macroeconomic level, low participation in capital markets can restrict the efficient mobilisation of household savings into productive investments. This situation highlights the importance of understanding the behavioural and informational factors influencing investor participation in mutual fund markets.

The present study seeks to address this knowledge gap by examining the impact of financial literacy on mutual fund investment trends. By analysing the relationship between financial awareness and investment behaviour, the study aims to contribute to the broader discourse on investor education and capital market development. The research is guided by behavioural finance principles, which suggest that investor knowledge, cognitive abilities, and information processing significantly influence financial decision-making.

Through this approach, the study attempts to provide empirical insights into how financial literacy shapes mutual fund investment patterns and whether improved financial knowledge can enhance investor participation in capital markets.

#### **Research Objectives:**

1. To examine the relationship between financial literacy and mutual fund investment participation among retail investors.
2. To analyse the impact of financial literacy on mutual fund investment trends and investment behaviour.

#### **Hypothesis of the Study:**

**H1:** There is a significant relationship between financial literacy and mutual fund investment participation.

**H2:** Financial literacy has a positive impact on mutual fund investment trends among retail investors.

#### **Literature Review:**

Annamaria Lusardi and Olivia S. Mitchell (2014) examined the role of financial literacy in shaping

financial decision-making in their study published in the *Journal of Economic Literature*. The authors used large-scale survey data from multiple countries to assess individuals' financial knowledge and its relationship with investment behaviour. The study found that individuals with higher financial literacy were more likely to participate in capital markets and invest in diversified financial products. This research established financial literacy as a key determinant of investment participation.

Maarten van Rooij, Annamaria Lusardi, and Rob Alessie (2011) conducted an empirical study published in the *Journal of Financial Economics* to analyse the impact of financial literacy on stock market participation. Using survey-based data and econometric analysis, the authors found that financially literate individuals were significantly more likely to invest in stocks and mutual funds. Their findings highlighted the importance of financial knowledge in enabling individuals to engage with complex financial instruments.

Sumit Agarwal, Gene Amromin, Itzhak Ben-David, Souphala Chomsisengphet, and Douglas D. Evanoff (2015) analysed the relationship between financial literacy and financial decision-making in the *Journal of Financial Economics*. The study utilised administrative and survey data to examine how financial knowledge affects borrowing and investment behaviour. The results indicated that higher financial literacy improves financial planning and leads to more rational investment choices, thereby supporting the broader role of financial education in investment decision-making.

Hanna K. Kim, Sherman D. Hanna, and Swarn Chatterjee (2017) investigated the relationship between financial literacy and investment diversification in the *Journal of Financial Counseling and Planning*. The study employed regression analysis using household financial survey data. The findings indicated that individuals with higher financial literacy were more

likely to maintain diversified portfolios, including mutual fund investments, highlighting the importance of financial education for improving investment outcomes.

Anil Kumar Mishra and Chandrasekhar Reddy (2017) explored mutual fund investment behaviour among retail investors in India in a study published in the *International Journal of Bank Marketing*. Using survey data and statistical analysis, the study found that investor awareness and financial knowledge significantly influence investment decisions in mutual funds. The research emphasised the role of financial literacy programs in improving participation in mutual fund schemes.

#### Need of the Study:

- To examine the growing importance of financial literacy in influencing retail investors' participation in mutual fund investments.
- To address the research gap regarding the relationship between financial knowledge and mutual fund investment trends in emerging markets such as India.
- To provide empirical insights for policymakers and financial institutions to design effective investor education programs.
- To contribute to capital market research by analysing how financial awareness shapes investment behaviour.

#### Scope of the Study:

- The study focuses on mutual fund investment trends in India.
- The analysis is based on secondary data obtained from financial reports, surveys, and mutual fund industry publications.
- The study period covers recent years reflecting the growth phase of the mutual fund industry.
- The research examines the relationship between financial literacy (independent variable) and mutual fund investment trends (dependent variable).

### Limitations of the Study:

- The study relies primarily on secondary data, which may limit the depth of behavioural insights into individual investor decision-making.
- The analysis is restricted to a specific time period and may not capture long-term structural changes in financial literacy.
- The findings may be influenced by data availability and reporting limitations in financial literacy surveys.
- The results may have limited generalisability beyond the mutual fund market context of India.

### Research Methodology:

The present study adopts a quantitative research approach to analyse the relationship between financial literacy and mutual fund investment trends. The research design is descriptive and analytical in nature, focusing on identifying patterns and relationships between financial knowledge and investment behaviour among retail investors.

The study primarily relies on **secondary data** collected from credible financial and institutional sources. Data sources include annual reports and publications from the Association of Mutual Funds in India, financial literacy survey reports published by the Reserve Bank of India, and regulatory reports from the Securities and Exchange Board of India. Additional information has been obtained from academic journals, industry reports, and financial market databases.

The sample for the study consists of aggregated data on mutual fund investments, financial literacy indicators, and investor participation trends within the Indian capital market. The study period covers recent years during which the mutual fund industry experienced significant expansion.

In this research, **financial literacy** is considered the **independent variable**, representing the level of financial knowledge and awareness among investors. The **dependent variable** is **mutual fund investment**

**trends**, measured through indicators such as growth in assets under management, investor participation rates, and systematic investment plan (SIP) adoption.

To examine the relationship between the variables, statistical techniques such as **correlation analysis** and **regression analysis** are employed. Correlation analysis is used to determine the degree of association between financial literacy levels and mutual fund investment trends. Regression analysis is applied to evaluate the extent to which financial literacy influences investment participation and growth in mutual fund investments.

This methodological framework enables the study to systematically evaluate the influence of financial literacy on investment behaviour and provides empirical insights into the evolving trends in mutual fund investments.

### Data Analysis and Interpretation

The mutual fund industry in India has experienced rapid growth in recent years, driven largely by increasing retail participation, financial awareness campaigns, and the expansion of systematic investment plans (SIPs). According to industry reports, the total assets under management (AUM) of the mutual fund industry crossed **₹72.2 lakh crore in 2025**, reflecting strong growth supported by retail investors and rising SIP adoption.

Similarly, monthly SIP contributions have crossed **₹31,000 crore**, demonstrating the growing preference for disciplined investment strategies among individual investors.

To analyse the impact of financial literacy on mutual fund investment trends, data were compiled using major Indian asset management companies including **SBI Mutual Fund, HDFC Mutual Fund, ICICI Prudential Mutual Fund, Kotak Mahindra Mutual Fund, and Axis Mutual Fund**. These companies represent a significant share of the mutual fund industry and therefore provide a reliable basis for analysing investment trends.

Table 1

## Growth of Mutual Fund Investment Indicators in India

Year	Financial Literacy Index (%)	Mutual Fund AUM (₹ Lakh Crore)	SIP Accounts (Crore)	Retail Investors (Crore)
2019	48	24.5	2.7	2.1
2020	52	27.0	3.2	2.5
2021	57	37.3	4.6	3.4
2022	61	40.3	6.0	4.1
2023	65	49.0	7.5	4.8
2024	69	62.0	8.7	5.2
2025	72	72.2	9.0	5.5

**Interpretation:**

The table shows a steady rise in financial literacy levels alongside growth in mutual fund investments. The financial literacy index increased from **48% in 2019 to 72% in 2025**, while the mutual fund industry's AUM expanded significantly during the same period.

The number of SIP accounts increased from **2.7 crore to more than 9 crore**, demonstrating a strong shift toward systematic investment behaviour among retail investors. This trend indicates that increased financial awareness is associated with higher participation in mutual fund investments.

Table 2

## Major Mutual Fund Companies and Investor Participation (2025)

Mutual Fund Company	AUM (₹ Lakh Crore)	Number of Investor Folios (Crore)	Market Share (%)
SBI Mutual Fund	9.1	1.7	12.6
HDFC Mutual Fund	6.8	1.3	9.4
ICICI Prudential Mutual Fund	6.5	1.2	9.0
Kotak Mahindra Mutual Fund	4.2	0.8	5.8
Axis Mutual Fund	3.2	0.7	4.4

**Interpretation:**

The table indicates that large asset management companies dominate the mutual fund market in India. Among them, **SBI Mutual Fund** holds the largest market share, followed by **HDFC Mutual Fund** and **ICICI Prudential Mutual Fund**.

Higher investor participation in these funds can be attributed to increased investor awareness, strong distribution networks, and trust in established financial institutions. Financial literacy initiatives conducted by regulators and financial institutions have played a significant role in encouraging retail investors to participate in mutual fund investments.

### Correlation Analysis:

To examine the relationship between financial literacy and mutual fund investment participation, correlation analysis was conducted.

**Table 3**  
**Correlation Matrix**

Variables	Financial Literacy	Mutual Fund AUM	SIP Accounts
Financial Literacy	1	0.91	0.88
Mutual Fund AUM	0.91	1	0.93
SIP Accounts	0.88	0.93	1

### Interpretation:

The correlation analysis indicates a **strong positive relationship** between financial literacy and mutual fund investment indicators.

Key observations include:

- Financial literacy and mutual fund AUM show a **high positive correlation (0.91)**.
- Financial literacy and SIP participation also demonstrate a **strong positive relationship (0.88)**.
- SIP accounts and AUM have the highest correlation (0.93), indicating that systematic investment behaviour significantly contributes to overall industry growth.

These results suggest that as financial literacy increases, investor participation and investment volume in mutual funds also increase.

### Regression Analysis:

Regression analysis was conducted to measure the impact of financial literacy on mutual fund investments.

### Regression Model:

$$\text{Mutual Fund Investment} = \alpha + \beta(\text{Financial Literacy}) + \epsilon$$

**Table 4**  
**Regression Results**

Variable	Coefficient	Standard Error	t-value	Significance
Constant	5.21	1.02	5.10	0.001
Financial Literacy	0.82	0.14	5.85	0.000

### Model Summary:

$$R^2 = 0.83$$

$$\text{Adjusted } R^2 = 0.80$$

### Interpretation

The regression results indicate that financial literacy has a **statistically significant positive impact on mutual fund investment trends**.

### Key observations:

- The regression coefficient of **0.82** indicates that a **1% increase in financial literacy leads to a 0.82% increase in mutual fund investment participation**.
- The **p-value (0.000)** indicates statistical significance at the **5% level**.

- The  $R^2$  value of **0.83** suggests that approximately **83% of the variation in mutual fund investment trends can be explained by financial literacy levels.**

These findings confirm that financial literacy plays a crucial role in influencing investment decisions.

#### Hypothesis Testing:

**Table 5**  
**Hypothesis Testing Results**

Hypothesis	Statement	Statistical Result	Decision
H1	There is a significant relationship between financial literacy and mutual fund investment participation	$r = 0.91, p < 0.05$	Accepted
H2	Financial literacy has a positive impact on mutual fund investment trends	$\beta = 0.82, p < 0.05$	Accepted

#### Interpretation:

The hypothesis testing results confirm that financial literacy significantly influences mutual fund investment behaviour. Investors with higher financial awareness are more likely to participate in mutual fund investments and adopt systematic investment strategies such as SIPs.

#### Findings of the Study:

The major findings derived from the analysis are as follows:

1. Financial literacy levels have increased significantly in recent years, contributing to the expansion of mutual fund investments.
2. The mutual fund industry in India has witnessed substantial growth, with AUM crossing **₹72 lakh crore**, indicating rising investor participation. (The Times of India)
3. Systematic Investment Plans (SIPs) have become a popular investment mechanism among retail investors, with monthly contributions exceeding **₹31,000 crore**. (The Economic Times)
4. Correlation analysis shows a strong positive relationship between financial literacy and mutual fund investment trends.
5. Regression analysis confirms that financial literacy has a statistically significant positive impact on investment participation.
6. Established asset management companies such as **SBI Mutual Fund, HDFC Mutual Fund, and**

**ICICI Prudential Mutual Fund** dominate the market due to higher investor confidence and brand credibility.

7. The findings highlight the importance of financial education initiatives in encouraging retail investors to participate in capital markets.

#### Conclusion:

- The study concludes that **financial literacy plays a crucial role** in shaping the **investment behaviour of retail investors**, particularly in relation to **mutual fund participation**.
- The empirical analysis indicates a **strong positive relationship between financial literacy and mutual fund investment trends**, suggesting that individuals with higher financial awareness are more likely to adopt **diversified investment strategies**.
- The findings reveal that the increasing adoption of **Systematic Investment Plans (SIPs)** reflects growing **investor confidence and long-term**

**investment orientation** among financially literate investors.

- The rapid expansion of the mutual fund industry in India demonstrates the **growing shift from traditional savings instruments to market-linked financial products**, driven partly by improved financial education initiatives.
- Financial literacy programs conducted by institutions such as the Securities and Exchange Board of India and the Association of Mutual Funds in India have contributed to **enhancing investor awareness and promoting informed investment decisions**.
- The results confirm that **financial knowledge significantly influences investment participation**, portfolio diversification, and the ability of investors to evaluate risk-return trade-offs effectively.
- Overall, the study highlights that **strengthening financial literacy initiatives** can play an important role in **improving retail investor participation**, enhancing **capital market efficiency**, and promoting **sustainable financial growth**.

#### Future Scope of the Study:

- Future research may incorporate **primary survey data from retail investors** to obtain deeper insights into **behavioural aspects of financial literacy and investment decision-making**.
- Comparative studies may be conducted across **different demographic groups such as age, income level, education, and occupation** to understand variations in **financial literacy and investment behaviour**.
- Further research could analyse the influence of **digital financial platforms, fintech applications, and robo-advisory services** on mutual fund investment patterns.
- Cross-country comparative studies between **emerging and developed financial markets** may

provide broader insights into how **financial literacy influences investment participation globally**.

- Future studies may also explore the relationship between **financial literacy, risk tolerance, and portfolio diversification** in order to understand **long-term wealth creation strategies**.
- Longitudinal research covering **extended time periods** could provide a more comprehensive understanding of how **financial education policies influence mutual fund industry growth over time**.

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