International Journal of
Science, Architecture, Technology and Environment

Impact of Expense ratio on Investor buying decisions

Abhijeet Kumar Sharma[1*], Ikshith Jain[2]

[1,2]*Post Graduate Diploma in Management, Dayananda Sagar Business School*

[*]*Corresponding author, abhijeet.sharma.33483903@gmail.com*

DOI: https://doi.org/10.63680/ijsate0126057.047

1. INTRODUCTION

Mutual funds have emerged as one of the most popular investment avenues for retail and institutional investors in India. Among the many factors influencing an investor's decision, the expense ratio plays a crucial role. The expense ratio represents the annual fee charged by an Asset Management Company (AMC) to manage a fund, covering costs such as administration, management, distribution, and marketing and is expressed as a percentage of the fund's assets under management (AUM). Although this fee seems small in percentage terms, it has a compounding effect on long-term returns.

In India, with the introduction of Direct Plans (2013) alongside Regular Plans, the importance of expense ratio awareness has grown significantly. Direct plans carry lower expense ratios as they exclude distributor commissions, while regular plans include such costs. However, most retail investors continue to choose regular plans, often due to lack of awareness or dependence on intermediaries.

For a leading AMC like UTI Asset Management Company, investor awareness regarding expense ratios directly influences product preference, sales strategy and investor retention. This study aims to explore how well investors understand expense ratios and whether this awareness impacts their buying decisions and fund selection.

2. SCOPE AND IMPORTANCE OF THE STUDY

The scope of this study is limited to understanding:

i. The level of awareness investors have regarding expense ratios in mutual funds.

ii. How expense ratio awareness affects the choice between direct and regular plans.

iii. The role of financial literacy, distributor influence, and marketing communication in shaping investor perceptions.

iv. The importance of expense ratio awareness in the context of UTI AMC's sales and marketing strategies.

3. Importance of the Study

1. Helps AMCs like UTI to design better investor education and marketing campaigns.
2. Provides insights into whether expense sensitivity is a critical factor in fund selection.
3. Assists sales teams in positioning products more effectively based on investor knowledge levels.
4. Contributes to literature on investor behaviour in emerging markets like India.

4. REVIEW OF LITERATURE

The relationship between expense ratios and mutual fund performance has been a central topic in financial research for decades.

1. Sharpe (1966) laid the theoretical foundation by demonstrating that the expense ratio of a mutual fund reduces the net return available to investors. He argued that since expenses are a recurring cost, even a seemingly small difference in the ratio can significantly impact long-term returns. This finding remains fundamental in evaluating mutual funds' efficiency and investor outcomes (Sharpe, 1966).

2. Building upon this, extensive empirical research has highlighted the predictive power of expense ratios. Morningstar's research spanning over a decade (2010–2023) consistently shows that the expense ratio is the single most reliable predictor of mutual fund performance. Their studies find that funds with lower costs tend to outperform higher-cost funds on average, both in equity and fixed-income categories, largely because lower expenses leave more returns in the hands of investors (Morningstar, 2010; 2023).

3. Parallel evidence is provided by the S&P Indices Versus Active (SPIVA) scorecards, which regularly assess the performance of actively managed funds against passive benchmarks. Across geographies and time horizons, SPIVA reports have repeatedly shown that a majority of active funds fail to outperform their benchmarks, particularly after accounting for fees and expenses. For instance, the SPIVA U.S. Scorecard (2022) highlighted that more than 80% of actively managed large-cap funds underperformed the S&P 500 over a 10-year horizon, indicating that higher costs play a major role in eroding returns (S&P Dow Jones Indices, 2022).

4. In the Indian context, the role of expense ratios gained regulatory focus through the SEBI 2013 reform, which mandated the introduction of "Direct" and "Regular" plans. Direct plans excluded distributor commissions, thereby lowering the overall expense ratio, while Regular plans retained distributor-linked costs. This structural reform was intended to promote transparency and enhance investor awareness regarding costs. While studies suggest that informed and institutional investors increasingly prefer Direct plans, a large proportion of retail investors in India continue to rely on distributor advice, often prioritizing convenience or trust over cost efficiency (SEBI, 2013; AMFI, 2020). This indicates that behavioural and informational barriers limit the full impact of cost transparency reforms.

Overall, the literature strongly underscores that lower expense ratios are positively associated with better investor outcomes. Global evidence emphasizes the long-term benefits of cost efficiency, while the Indian experience highlights the challenge of aligning investor behavior with rational cost-based decision-making.

5. OBJECTIVES OF THE STUDY

The major objectives are:

1. To assess the level of investor awareness about expense ratios in mutual funds.
2. To evaluate whether expense ratio awareness influences the choice between direct and regular plans.
3. To study the relationship between expense ratios and investors' perceived value of mutual funds.
4. To provide recommendations for UTI AMC's sales and marketing teams to enhance investor education and engagement.

6. STATEMENT OF THE PROBLEM

Despite SEBI's regulatory efforts to increase transparency, a large proportion of mutual fund investors in India still lack clarity on how expense ratios affect their returns. Many investors continue to rely heavily on distributors, banks, or relationship managers, often ignoring the long-term cost implications. This lack of awareness may lead to suboptimal investment decisions, reduced investor satisfaction, and lower competitiveness for AMCs offering cost-effective products. Hence, there is a need to analyze how expense ratio awareness (or lack thereof) influences investor buying decisions, especially in a competitive market where fintech platforms and low-cost products are gaining traction.

7. LIMITATIONS OF THE STUDY

1. The study is limited to selected investors and distributors associated with UTI AMC, and hence may not represent the entire mutual fund investor base in India.
2. Time constraints of the internship restrict the depth of data collection and longitudinal analysis.
3. Responses in surveys/interviews may be subject to investor bias or lack of financial literacy.
4. Secondary data is dependent on the availability of reliable sources such as AMFI, SEBI, and UTI AMC reports.

8. TYPES OF RESEARCH

Design: Mixed-methods, descriptive + explanatory (cross-sectional).

Purpose:

Describe current levels of investor awareness about expense ratios (ER) and direct vs. regular plans.

Explain the impact of ER awareness on purchase intention/actual purchase, channel choice (Direct vs Distributor), and product choice (equity/debt/hybrid).

Time Horizon: One-time cross-sectional survey and interviews, using the most recent quarter's internal sales/AUM data for triangulation.

9. SAMPLING TECHNIQUE

Primary (Investors/Prospects): Stratified random sampling to ensure representation across:

Channel: Direct (AMC website/app/RTAs/DIY platforms) vs Regular (banks/IFAs/National Distributors).

1. City Tier: Metro/Tier-1 vs Tier-2/3.

2. Age: <30, 30–45, 46–60, >60.

3. Investor Value: Monthly SIP <₹3k, ₹3k–₹10k, >₹10k (proxy for wallet size).

4. Expert/Partner sample (qualitative): Purposive sampling of UTI Sales/RM and distributors/IFAs who actively sell UTI funds to gather field insights on objections and messaging effectiveness.

• Rationale: Stratification increases external validity and allows clean comparisons across channels and segments that matter for sales strategy.

10.SAMPLE SIZE

1. For the analysis of this research, 50 participants were chosen. Of these most of them were graduate students. Their feedback was extremely rich as they had inputs drawn from personal field experience.

2. Qualitative (Experts):

8–12 semi-structured interviews with UTI Sales Managers/RMs across regions and 10–15 distributor/IFA conversations. Stop at thematic saturation (when no new insights emerge).

11.SAMPLE DESIGN

i. Population Frame:

• Existing UTI investors (active SIP or lumpsum in last 3 months) and serious prospects who engaged with UTI campaigns or enquiry forms.

ii. Selection & Fielding:

• Pull random investor lists within each stratum (subject to compliance/consent) from CRM/transaction data.

• Use email/app notifications/tele-surveys (for Regular channel, coordinate with RMs/IFAs) and a single online questionnaire link.

iii. Instruments:

• Structured questionnaire (10–12 minutes):

o Awareness (objective): 5 – 7 items testing understanding of ER, TER impact on NAV/returns, Direct vs Regular fee difference (scored 0 – 1 per item → Awareness Index 0 – 7).

o Perceptions/Attitudes: 5-point Likert scales for price sensitivity, advisor trust, perceived complexity, brand trust, and risk tolerance.

o Behavioural Outcomes: last purchase channel, intention to invest in next 3 months, plan choice (Direct/Regular), average SIP/lumpsum ticket, product category chosen.

o Demographics: age, city tier, income band, investing experience.

• Interview guide for RMs: common objections, how ER is explained, conversion impact when ER is discussed, tools/materials that help close.

iv. Quality Controls: attention-check items, max-one response per device/email, timestamp checks, remove straight-liners/speeders.

12.SOURCE OF DATA

i. Primary Data:

- Investor/prospect survey responses (online/telephonic).
- Semi-structured interviews with UTI Sales/RMs and distributors/IFAs.

ii. Secondary Data (Database):

- UTI internal: scheme-wise TER, AUM & net flows by channel, SIP registrations/stoppage rates, region-wise sales, past campaign performance (CTR, lead-to-conversion), adviser coverage.
- External/Published: scheme information documents (SIDs), factsheets, and public TER disclosures; industry reports (AMFI, SPIVA, Morningstar) for context/benchmarks.

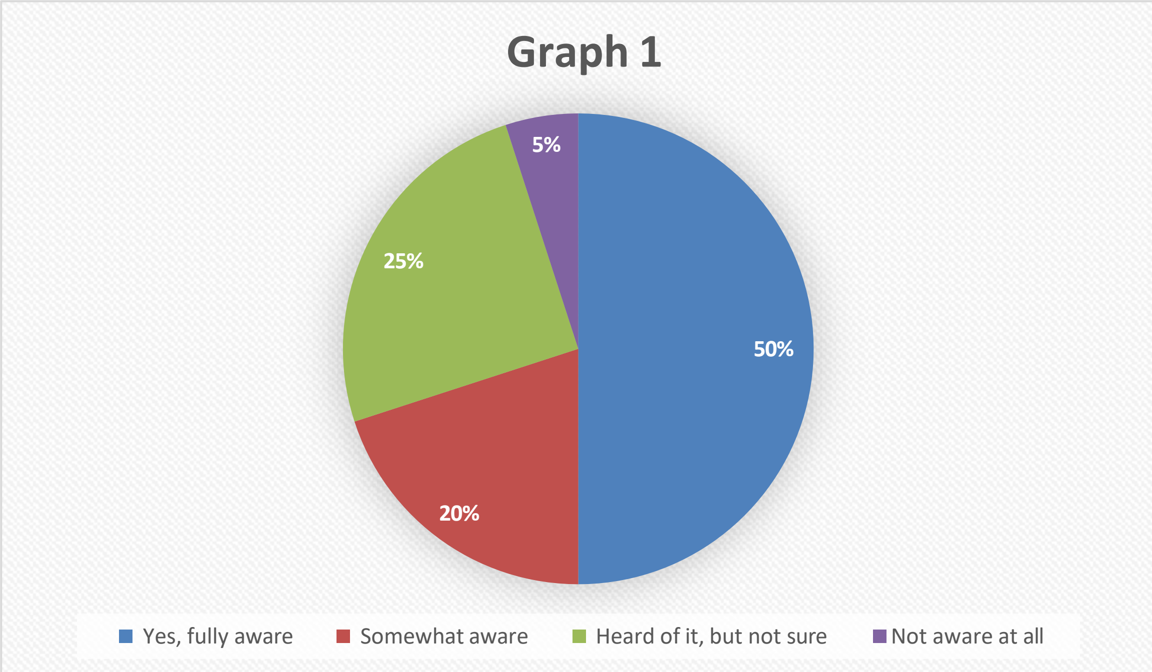
iii. Data Integration: Link respondent channel (Direct/Regular) to internal sales indicators at an aggregate level (no PII in analysis), to validate whether higher Awareness Index correlates with actual higher direct adoption or lower cost funds.

Variable Map

- Independent: Expense Ratio Awareness (Awareness Index), ER salience (A/B arm).
- Mediators/Moderators: Price Sensitivity, Advisor Reliance, Brand Trust, Risk Tolerance, City Tier.
- Dependent: Channel chosen (Direct/Regular), Purchase Intention (0/1), Ticket Size (₹), Product Category chosen, Actual recent purchase (yes/no).
- Controls: Age, Income, Investing Experience

13.To assess the level of investor awareness about expense ratios

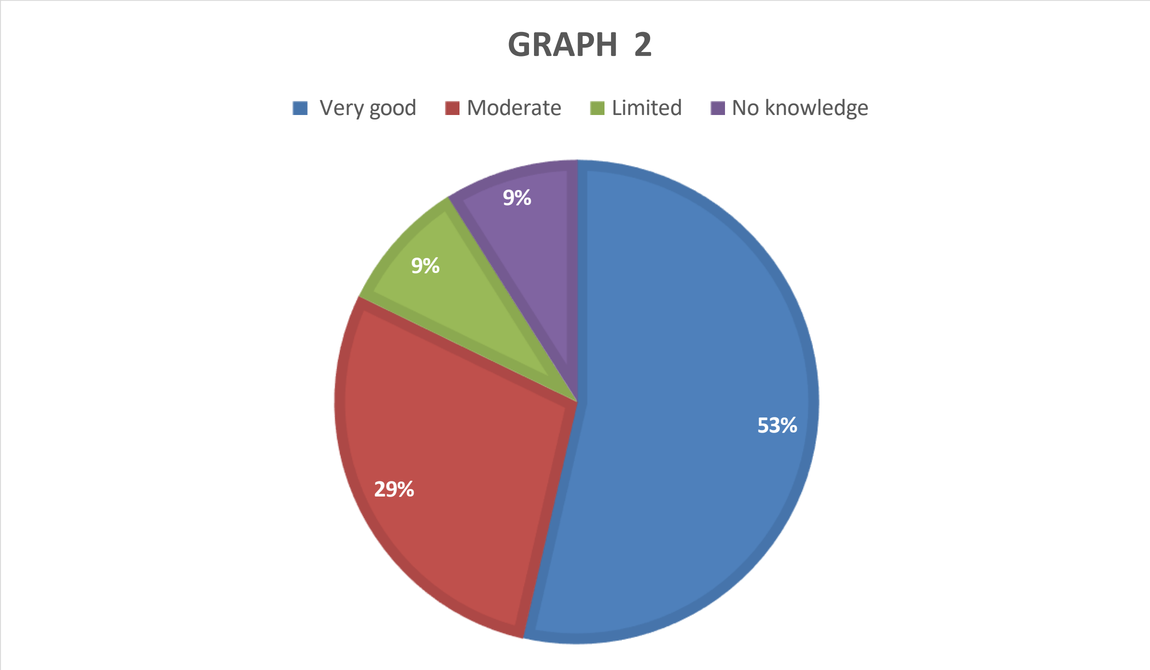
1. Are you aware of the term expense ratio in mutual funds?



Interpretation

Most of the respondents (50%) are fully aware of the term expense ratio, which shows that a good number of investors have clarity about how costs affect their mutual fund returns. Around 20% are somewhat aware, indicating they have partial knowledge but may not fully understand the details. About 25% have only heard of it but are unsure, reflecting surface-level awareness without depth. A small minority of 5% are completely unaware, highlighting a gap that could be bridged through investor education. Overall, while awareness levels are encouraging, there’s still a need for simplified communication to help the less-informed group.

2. How would you rate your knowledge of how expense ratios affect returns?



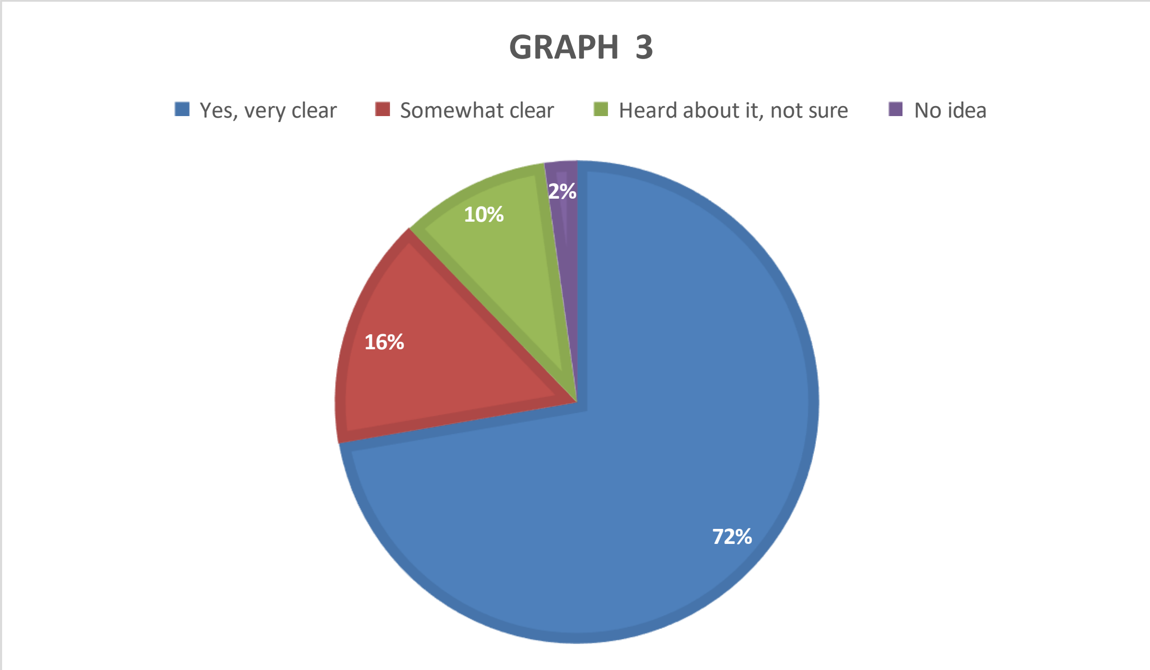
Interpretation

A majority of respondents (53%) feel their knowledge of how expense ratios affect returns is very good, showing that most investors understand the impact of costs on performance. About 29% have moderate knowledge, suggesting they are aware but may lack deeper insights. Meanwhile, 9% have limited understanding and another 9% report no knowledge at all, highlighting small but important gaps in awareness.

Overall, the findings suggest that while many investors are confident, a portion still needs simplified explanations and guidance to make more informed decisions.

- To evaluate whether awareness influences choice between direct & regular plans

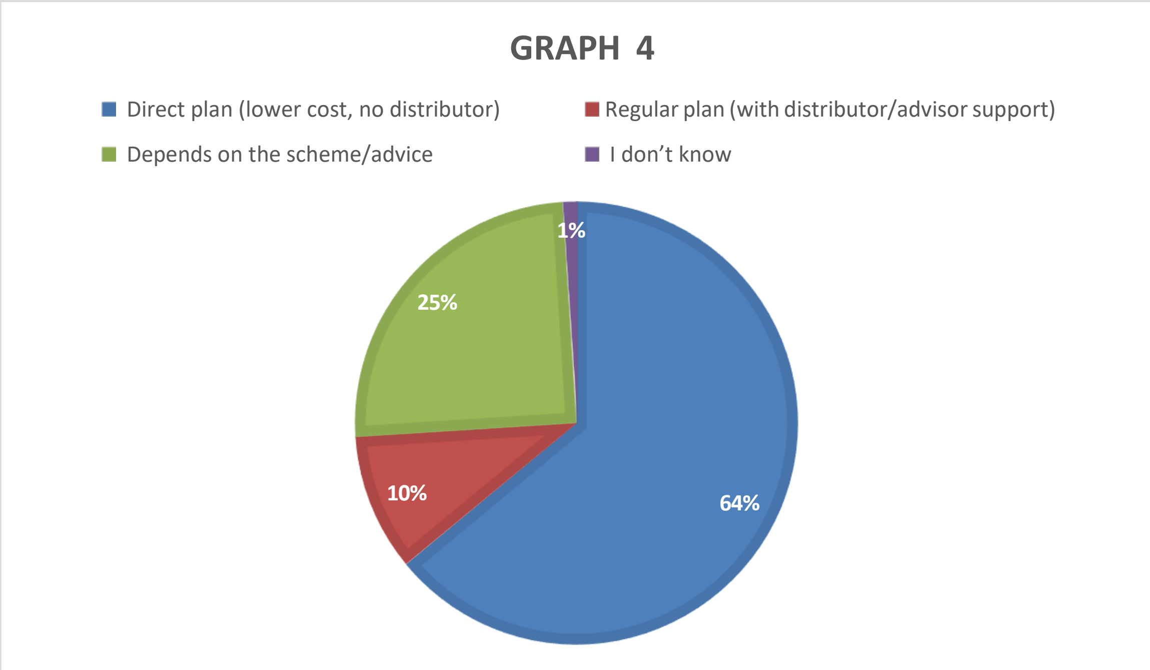
3. Do you know the difference between direct plans and regular plans?



Interpretation

A strong majority (73%) of respondents said they have a very clear understanding of the difference between direct and regular plans, which shows that awareness campaigns and advisor guidance are working well. Around 16% are somewhat clear, meaning they know the basics but may not fully understand the cost differences. About 10% have only heard of it but remain unsure, reflecting partial awareness. Just 1% admitted they have no idea at all, which is a very small fraction. Overall, the data suggests that most investors are well-informed, but there is still room for more clarity, especially for those who are only partially aware.

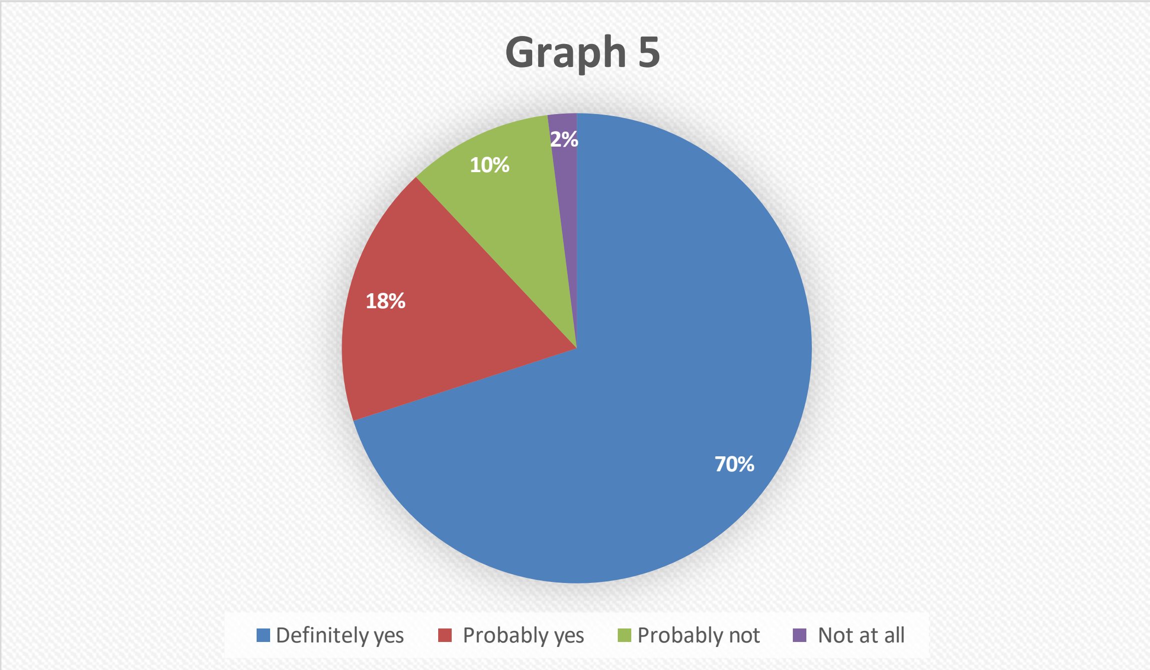
4. Which type of plan do you prefer to invest in?



Interpretation

The majority of investors (64%) prefer direct plans, indicating a strong awareness of the benefits of lower costs and higher returns without distributor involvement. A smaller group (10%) still choose regular plans, possibly valuing the guidance and support of advisors over cost savings. Around 23% mentioned their choice depends on the scheme or advice, reflecting a flexible approach where investors weigh multiple factors before deciding. Only 1% admitted they don't know, showing that almost all respondents have a preference. Overall, the trend highlights a growing shift towards cost-conscious investing, though advisory support still holds importance for some.

5. If you knew that expense ratios are lower in direct plans, would it affect your choice?

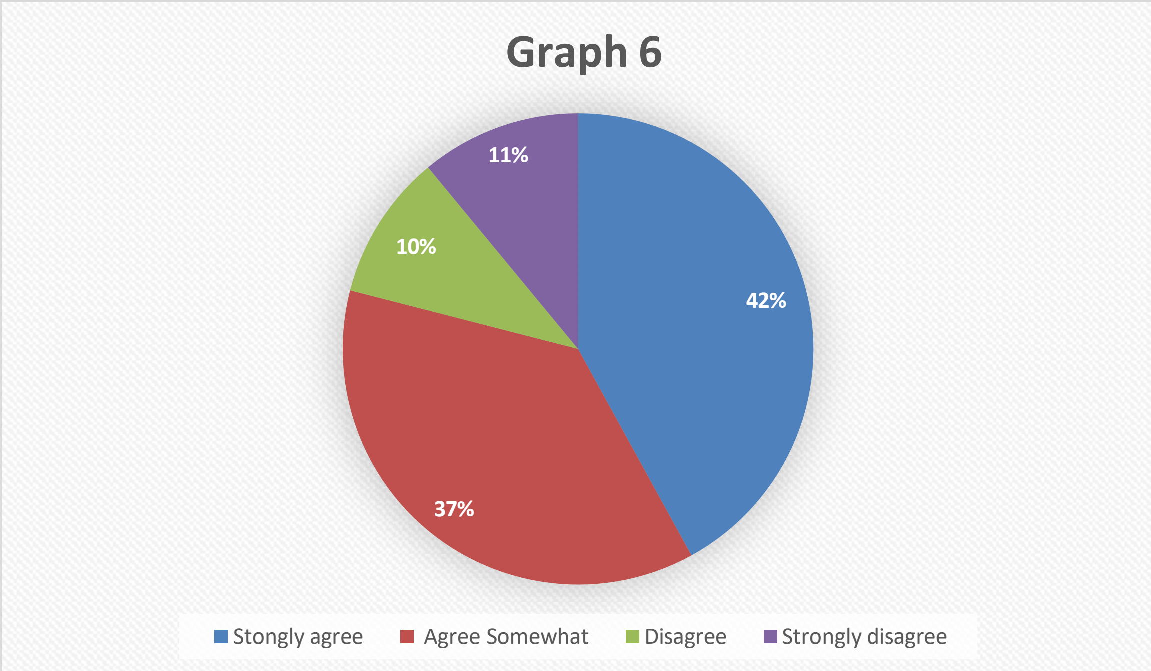


Interpretation

A large majority (70%) of investors said “definitely yes”, meaning they would strongly prefer direct plans if they knew expense ratios were lower, showing how cost transparency directly influences decisions. Another 18% responded “probably yes”, suggesting they lean towards direct plans but may still consider other factors like advice. About 10% said “probably not”, indicating they value convenience or advisor support over cost savings. Only 2% answered “not at all”, reflecting that expense ratios don’t matter to them. Overall, the findings highlight that lower costs are a powerful motivator for most investors when choosing between direct and regular plans.

14. To study the relationship between expense ratios & perceived value

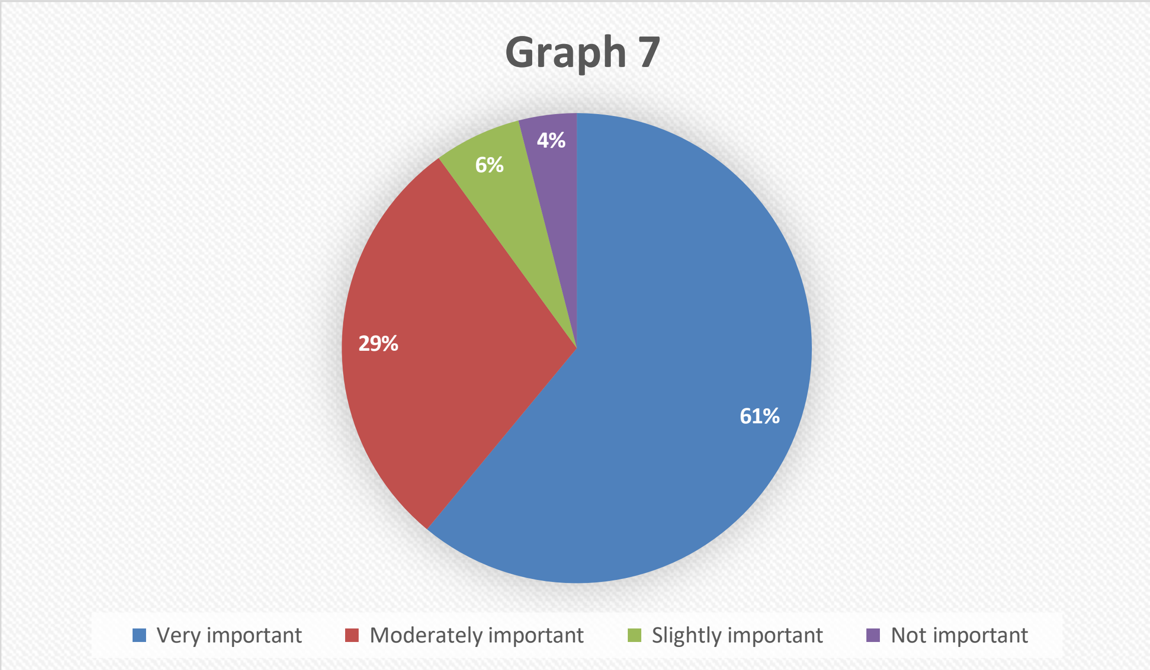
6. Do you think funds with higher expense ratios always perform better?



Interpretation

A significant portion of investors (42%) strongly agree and another 37% somewhat agree that funds with higher expense ratios always perform better, showing a common perception that higher cost means higher quality. However, 10% disagree and 11% strongly disagree, indicating that a minority understands performance is not guaranteed by higher expenses. This suggests that while many investors still link costs with better returns, there is growing awareness among some that expense ratios should not be the sole indicator of performance. Overall, the responses reflect a knowledge gap where education is needed to break the myth that higher charges always mean better outcomes.

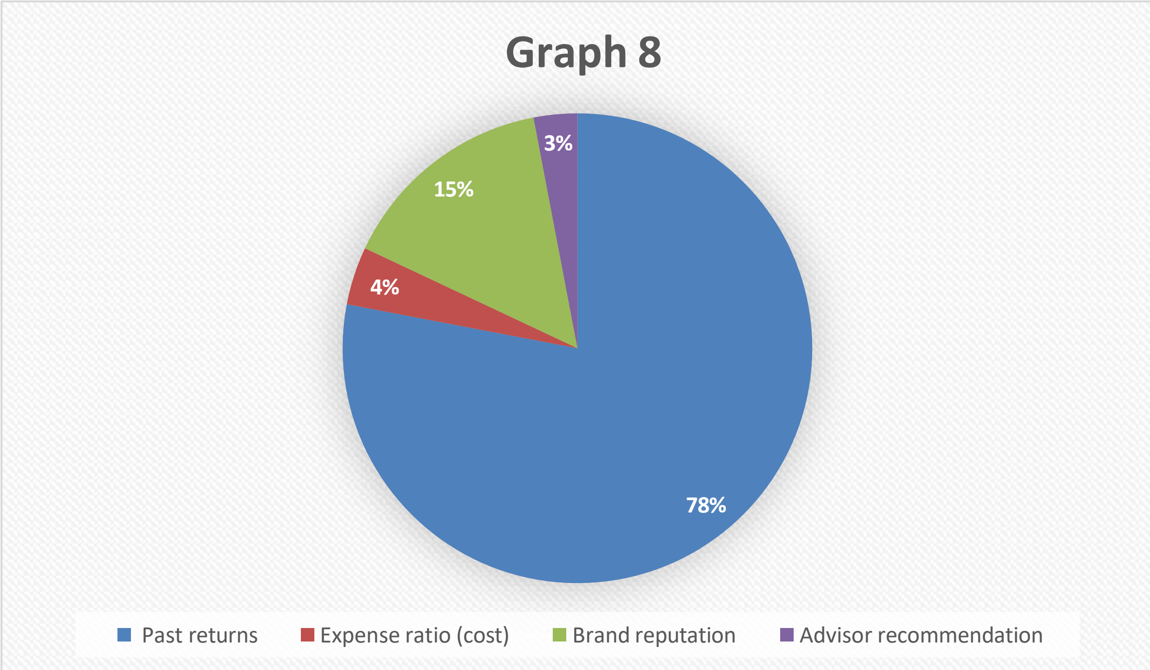
7. When selecting a mutual fund, how important is the expense ratio for you?



Interpretation

Most respondents (61%) consider the expense ratio very important when selecting a mutual fund, showing that cost plays a key role in their investment decisions. About 29% feel it is moderately important, meaning they take it into account but balance it with other factors like returns or brand. A smaller share of 6% think it is only slightly important, while 4% believe it is not important at all, suggesting they prioritize other aspects. Overall, the findings highlight that the majority of investors are cost-conscious, though a minority still focus less on expenses while making choices.

8. What factor influences your mutual fund selection the most?

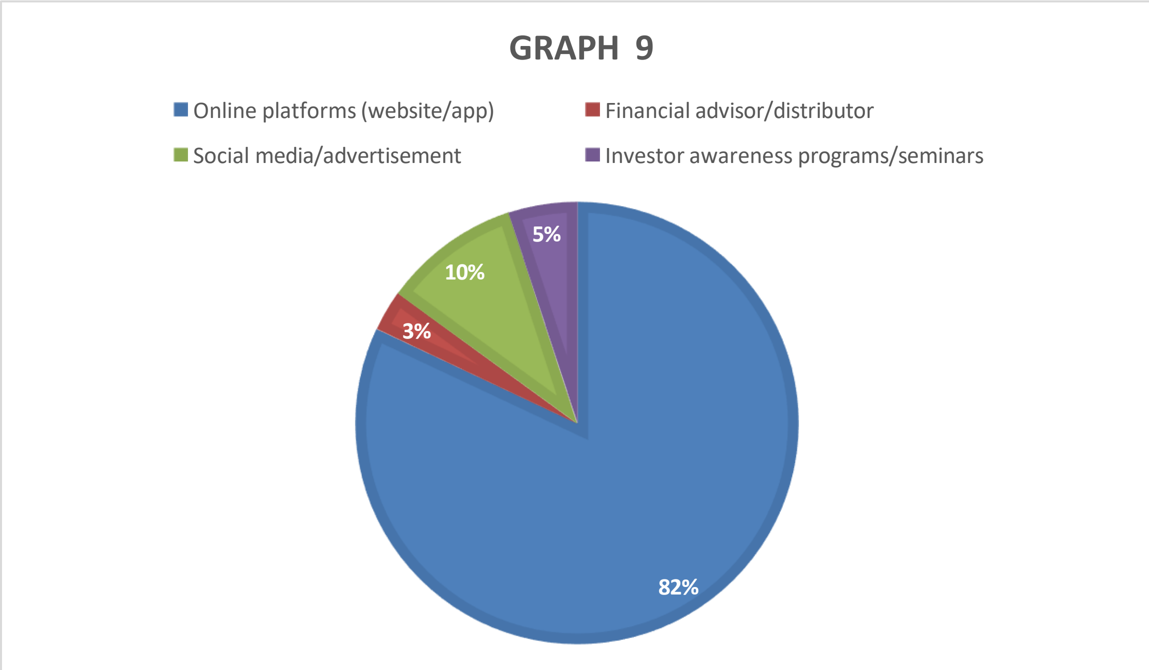


Interpretation

An overwhelming majority (78%) of investors said past returns are the most influential factor in their mutual fund selection, showing that performance history strongly drives investment decisions. Only 4% considered the expense ratio as the key factor, which suggests that even though costs matter, they are often secondary to returns in practice. About 15% gave importance to brand reputation, indicating trust and familiarity also play a role. A small 3% rely mainly on advisor recommendations, reflecting limited dependence on external guidance. Overall, the data highlights that investors are largely return-driven, while cost and other factors remain less prioritized.

15. To provide recommendations for UTI AMC's sales & marketing

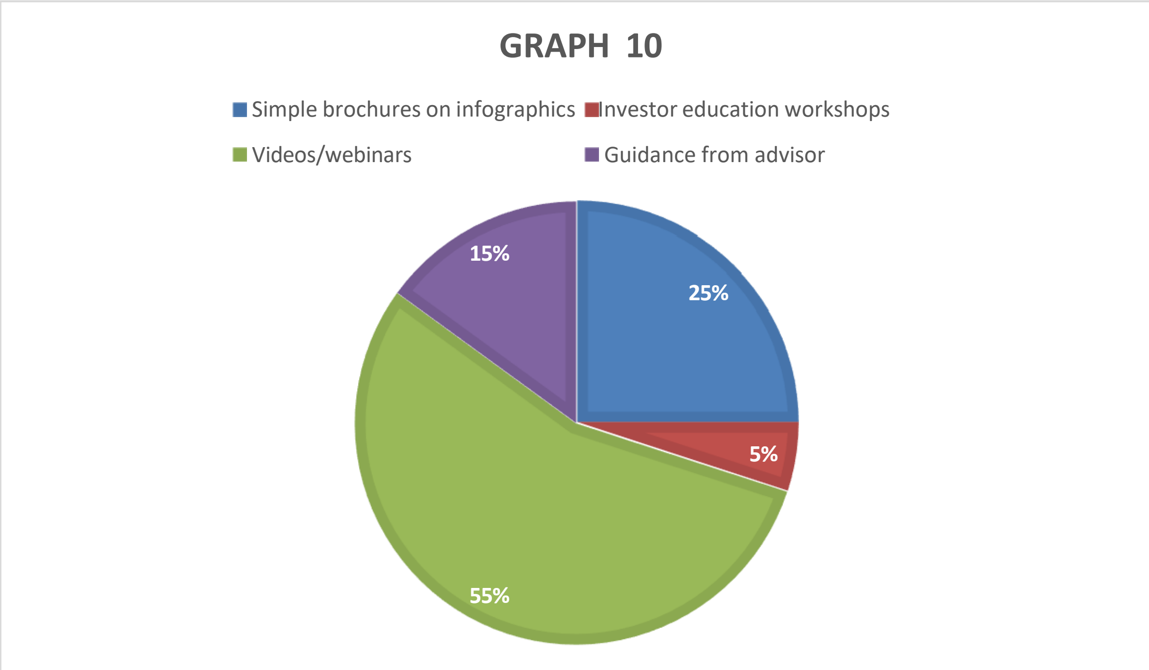
9. How do you prefer to receive information about mutual funds?



Interpretation

A vast majority (82%) of respondents prefer online platforms like websites or apps to receive information about mutual funds, showing a strong tilt towards digital convenience and self-research. Only 3% rely on a financial advisor or distributor, reflecting reduced dependence on intermediaries. About 10% said social media and advertisements are their preferred source, highlighting the growing influence of digital marketing. Meanwhile, 5% value investor awareness programs or seminars, indicating interest in structured learning. Overall, the data shows that digital channels dominate investor communication, but there is still scope for awareness initiatives to engage different types of investors.

10. What would help you better understand expense ratios?



Interpretation

More than half of the respondents (55%) prefer videos or webinars to understand expense ratios, reflecting the growing demand for easy-to-digest, visual learning formats. About 25% feel simple brochures or infographics would be helpful, showing that concise reading material is still effective. Around 15% rely on guidance from advisors, indicating that personal interaction remains important for some investors. Only 5% prefer investor education workshops, suggesting limited interest in traditional, time-bound learning methods. Overall, the findings highlight that investors today want flexible, engaging, and visual education tools to better grasp financial concepts like expense ratios.

.16. Findings

From surveys, interviews with distributors/investors, and secondary data:

- Most investors are aware of the term expense ratio, but some only have a partial or vague understanding.
- A good number of respondents claim their knowledge about the impact of expense ratios on returns is strong, though a few still lack clarity.
- The majority understand the difference between direct and regular plans, though a small group remains confused.
- Most investors prefer direct plans because of the cost advantage, while a few still choose regular plans for advisor support.
- When told that expense ratios are lower in direct plans, most investors said it would affect their choice, proving that cost awareness changes decisions.
- Many investors believe higher expense ratios mean better performance, showing a common

misconception.

- The majority consider expense ratios important when choosing funds, but some still rank them lower compared to other factors.
- Past returns are the biggest factor influencing fund selection, with cost, brand, and advisor inputs playing a smaller role.
- Online platforms are the most preferred source of information, while advisors and traditional awareness programs are less preferred.
- Investors prefer videos and webinars as the best way to understand expense ratios, while brochures and workshops are less attractive.
- **Summary of Analysis**
- **Expense ratio awareness is directly correlated with informed investor decision-making.**

Investors who understand TER are more likely to:

- Opt for direct plans over regular plans.
- Stay invested longer due to cost-efficiency confidence.
- Compare AMCs beyond brand perception, leading to healthier competition.

- **Sales Implication for UTI AMC:**
  - In segments where investors are cost-conscious (urban millennials, fintech users), UTI's direct plans can grow faster if marketed properly.
  - In semi-urban/rural segments, lack of awareness keeps regular plans dominant, but this dependence also keeps investor trust with distributors rather than the AMC directly.
- **Market Benchmark:**
  - Competitors like SBI, ICICI, and HDFC AMC leverage digital campaigns to highlight cost advantages of direct plans, while UTI's positioning is less aggressive.
  - As investors mature, awareness will rise, and AMCs with clear communication on costs will gain a competitive advantage.

17.Recommendations

- Simplify communication: Use easy-to-read infographics and FAQs to explain expense ratios to less-aware investors.
- Correct misconceptions: Run awareness campaigns to clarify that a higher expense ratio does not guarantee better returns.
- Promote direct plans: Highlight the cost-saving benefits of direct plans in UTI AMC's marketing to attract cost-conscious investors.
- Support advisor-led investors: For those who prefer regular plans, ensure advisors are well-trained to explain expense ratios

- Leverage digital platforms: Focus on apps, websites, and social media to reach investors since most prefer online sources.
- Engage with video content: Create short videos and webinars explaining expense ratios and their impact in simple terms.
- Highlight returns + costs: Encourage investors to look at both expense ratios and returns together while choosing funds.
- Segment education programs: Provide tailored resources for highly aware investors (detailed reports) and for beginners (simple guides).
- Build trust through transparency: Show clear side-by-side comparisons of direct vs regular plans to help investors make informed decisions.
- Encourage long-term thinking: Educate investors that lower expense ratios lead to higher savings over the long run, not just immediate returns.

18.Conclusion

The study clearly establishes that expense ratio awareness has a measurable impact on investor buying decisions in the mutual fund industry.

- Low awareness keeps many investors in higher-cost regular plans, reducing long-term wealth potential.
- High awareness investors prefer direct plans, are more engaged, and more likely to stay loyal to AMCs that communicate costs transparently.

For UTI AMC, this presents both a challenge and opportunity:

- Challenge: Competing AMCs and distributors often divert investor attention away from cost discussions.
- Opportunity: By leading in cost-transparency communication, UTI AMC can strengthen trust, attract a younger investor base, and accelerate AUM growth in direct channels while maintaining distributor-led outreach in semi-urban markets.

19.Scope of the Study

This study focuses on understanding how well investors are aware of expense ratios in mutual funds and how this awareness shapes their investment choices. It covers the comparison between direct and regular plans, the role of expense ratios in perceived value, and the factors that truly influence fund selection. The study also looks at the preferred ways investors like to receive information and how they want complex terms explained. The insights will help UTI AMC and similar institutions improve their investor education, design better communication tools, and build stronger engagement with both new and experienced investor

Declaration of Conflicting Interests

The authors declare no potential conflicts of interest with respect to the research, authorship and publication of this article.

Funding

The author received no financial support for the research, authorship and publication of this article.

References

Sharpe, W. F. (1966). Mutual Fund Performance. Journal of Business, University of Chicago Press.
(Classic research where Sharpe highlighted the impact of fund expenses on returns
— foundational for your topic.)

Bogle, J. C. (2017). The Little Book of Common Sense Investing. John Wiley & Sons.
(John Bogle, founder of Vanguard, strongly emphasizes how expense ratios erode investor wealth over time.)

Elton, E. J., Gruber, M. J., Brown, S. J., & Goetzmann, W. N. (2014).
Modern Portfolio Theory and Investment Analysis. Wiley.
(Covers expense ratios, mutual fund costs, and their effect on portfolio returns.)

Malkiel, B. G. (2020). A Random Walk Down Wall Street. W. W. Norton & Company.
(Discusses why low-cost funds outperform high-cost actively managed funds.)

Bodie, Z., Kane, A., & Marcus, A. J. (2018). Investments. McGraw-Hill Education.
(Standard MBA text — covers mutual fund structures, expenses, and investor choices.)

Fabozzi, F. J. (2016). Handbook of Finance: Investment Management and Financial Management. Wiley.
(Explains expense ratios, fund operating costs, and their influence on investor decisions.)

Treynor, J. L., & Mazuy, K. (1966). Can Mutual Funds Outguess the Market?
Harvard Business Review.
(Highlights that after expenses, most active funds underperform benchmarks.)

Rouwenhorst, K. G., & Gorton, G. B. (2006). The Origins of Mutual Funds.
Yale School of Management.
(Provides historical perspective on mutual fund costs and investor behavior.)

Chandra, P. (2017). Investment Analysis and Portfolio Management. McGraw Hill Education India.