Chapter 8

Risk Perception and Management Among Mutual Fund Investors in Kerala

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ABSTRACT

India has seen tremendous growth in the mutual fund industry, providing investors with more diversified investment opportunities. This study examines the risk perception and management among mutual fund investors in Kerala, a state known for its rapidly growing financial literacy and investment culture. The authors explore how investors view various risks associated with mutual funds, their risk tolerance levels, and their strategies, including diversification. The study uses quantitative and qualitative methods to understand investor behavior comprehensively. The findings reveal a significant knowledge gap in advanced risk management techniques even though a majority of investors in Kerala have moderate to high-risk tolerance. Demographic factors such as age, income, and education levels also influence risk perception and management strategies. The study emphasizes the need for enhanced financial literacy programs to equip investors with the necessary tools for making responsible decisions.

INTRODUCTION

Mutual funds can help retail investors easily diversify their investments without much domain-related skills and time. This allows investors to combine resources and invest in professionally managed investment options that enhance their risk/reward profile (Kuragayala, 2023). Fuelled by rising financial literacy, beneficial regulatory changes, and technology-driven investment platforms in recent years, the mutual fund industry has been gaining a steady growth path (Said and Tripathi, 2023). This has democratized participation in the financial markets for much of a demographic (Alayli, 2023). In Kerala, a state known for high literacy and progressive outlook, mutual funds investing is witnessing a growth

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phase (Venkateswaran et al., 2023). This trend is also supported by the state's significantly educated population, which understands and scores benefits provided or spurred on through mutual funds (Phoek et al., 2023). This paper investigates the perception of risk and strategies to manage risks among mutual fund investors in Kerala.

Risk perception: Measuring the uncertainty and possibilities of negative investment outcomes based on factors such as individual psychology, financial literacy, past experiences/rules of upbringing & demographics (Gupta and Jain, 2021). Younger investors, for example, may take risks that older ones do not due to different financial goals and time horizons (Putri et al., 2024). Risk perception, therefore, is relevant to the financial advisor or fund manager because it influences investment decisions and strategies (Ashraf, 2023). Those who are more risk-averse (like investors with a conservative approach) may look for safer bets. At the same time, those with lower levels of perceived downside adrenaline juice coursing through their veins might want to employ aggressive growth strategies (Sadath and Faheem, 2024). This understanding enables advisors to make recommendations that suit investors' comfort levels and financial goals. A nuanced understanding of demographic differences in risk perception will also help target educational programs and tools to improve financial literacy and confidence among investors.

With this in mind, the Brunel study hopes to offer some insights for the mutual fund industry, outlining best practices that could result in better risk management overall and ultimately help respect an investment landscape less pronounced like Kerala (Kalyani and Devi, 2024). It arises from the means and ways investors employ to reduce/eliminate probable losses related to risk control. Long-term investment objectives and investor trust can both be supported by effective risk management. This includes the continued use of traditional strategies such as diversification, asset allocation, and financial instruments such as derivatives (Doralba et al., 2024). These strategies are useful but depend heavily on how well the investor understands and implements them (Moyo and Nithyanantham, 2024). With its high literacy levels and solid remittance economy unique to the state's socio-economic conditions, Kerala is an environment ripe for financial investments. Though mutual funds are increasingly patronized by Tamil Nadu, very few studies probe into how Kerala investors view and handle the risks of these investments (Krishnan et al., 2024). The primary objectives of this study are:

- To assess the risk perception among mutual fund investors in Kerala.
- To analyze the risk management strategies employed by these investors.
- To identify the demographic factors influencing risk perception and management.
- To provide insights for financial institutions to develop tailored products and services.

The research employs a mixed-methods design that includes quantitative survey data and qualitative interviews. The quantitative data will offer a broad perspective on risk perception and management trends, while the qualitative data will yield insight into the drivers of those patterns. The results of this study will undoubtedly be a major signal for investors and financial institutions. This way, investors can make smarter investment decisions with a critical risk perception and management measure. Practical implications: For financial institutions, this study's findings could contribute to ensuring that, In sum, as mutual funds grow in popularity across Kerala (and beyond), attention to the types of risks investors perceive and their willingness to manage them is warranted. By undertaking this study, the authors have attempted to seek convergence between these aspects, thereby helping in bridging existing research lacunae and paving the way for mutual fund industry business furtherance and development, particularly within Kerala (Kavunthi et al., 2024).

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