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Barriers to Mutual Fund Participation in Bangladesh: An Analysis of Behavioral Biases and Financial Literacy Gaps

Executive Summary

This research investigates what prevents Bangladeshis from investing in mutual funds, examining both behavioral biases and financial literacy gaps. Drawing on primary data from 41 respondents and comprehensive industry analysis, the findings confirm that knowledge deficits and psychological barriers significantly limit mutual fund participation.

Behavioral biases show a strong negative relationship with participation ($r = -0.5522$), while financial literacy demonstrates a positive correlation ($r = 0.3563$). The regression results reveal that literacy influences participation both directly and indirectly through behavioral biases, confirming partial mediation. Bangladesh faces acute challenges: adult financial literacy stands at just 19%, investor penetration reaches only 1.1%, and the AUM-to-GDP ratio languishes at 0.24%.

Psychological obstacles include misconceptions about liquidity, risk perception issues, and skepticism fueled by past financial scandals. Key recommendations focus on enhancing financial education, simplifying products, reforming tax policies, and launching promotional campaigns to build investor awareness and confidence.

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Chapter 1: Introduction

1.1 Background of the Study

Bangladesh launched its mutual fund industry in 1980 when the Investment Corporation of Bangladesh introduced the First ICB Fund (EBL Securities Ltd., 2023). Yet decades later, the sector remains underdeveloped despite consistent economic growth. The economy has expanded at rates exceeding 6.0% annually over the past decade, peaking at 7.9% in FY 2019 (EBL Securities Ltd., 2023). The mutual fund industry hasn't kept pace with this expansion.

As of FY 2022, Bangladesh's AUM-to-GDP ratio stands at just 0.24%, the lowest in South Asia and down from 0.31% in 2017 (EBL Securities Ltd., 2023). These numbers pale in comparison to regional peers: India commands 16.2%, Vietnam reaches 6.6%, and even Pakistan achieves 1.7% (EBL Securities Ltd., 2023).

The industry encompasses 58 registered asset management companies overseeing 124 mutual funds. Total Assets Under Management reached BDT 118,071 million in FY 2022, split between closed-end funds (BDT 61,996 million) and open-end funds (BDT 56,074 million) (EBL Securities Ltd., 2023). While the sector achieved a five-year compound annual growth rate of 7.72% from FY 2017-22 (EBL Securities Ltd., 2023), serious challenges persist.

Financial literacy presents a major obstacle. The S&P Global FinLit Survey ranked Bangladesh 131 out of 142 countries, with adult financial literacy at approximately 19% (EBL Securities Ltd., 2023). Investor penetration tells an equally troubling story at 1.1%, far below Malaysia (9.0%), Thailand (8.0%), Vietnam (6.6%), and India (2.1%) (EBL Securities Ltd., 2023).

The Bangladesh Institute of Capital Market identified 11 distinct barriers blocking investment. These include expertise shortages, inadequate tax benefits, extended tenure periods for closed-end funds, weak demand, and poor financial literacy (Tuhin, 2021).

Misconceptions compound these problems. Five major myths plague the industry: investors believe they must personally find buyers to sell unit certificates, they think all unit funds carry the same risks as direct stock investments, they assume funds without cash dividends perform poorly, they expect lower NAV funds to deliver higher returns, and they believe asset managers' financial health determines fund performance (Maruf & Saha, 2023).

1.2 Research Question and Objective

Research Question: How do behavioral biases and financial literacy gaps create barriers to mutual fund participation in Bangladesh, and how do these factors interact to shape investment decisions?

Research Objectives:

1. Examine how financial literacy levels relate to susceptibility to behavioral biases among potential mutual fund investors
2. Analyze the direct impact of behavioral biases on mutual fund participation decisions
3. Investigate whether behavioral biases mediate the relationship between financial literacy and mutual fund participation
4. Assess how demographic factors (education, income, market experience) moderate the impact of behavioral biases on participation
5. Provide evidence-based recommendations for boosting mutual fund participation in Bangladesh

1.3 Scope of the Research

This research targets working professionals, general households, and students in Bangladesh who understand banking products but rarely invest in mutual funds. The study collected primary data through a structured questionnaire distributed to 41 respondents using purposive sampling. Participants were reached through university contacts, household networks, and workplace connections.

The analysis relies on correlation analysis, regression modeling, and moderation testing conducted in Microsoft Excel. Five key variables structure the investigation: Financial Literacy (FL_Score), Behavioral Biases (BB_Score), Risk & Mistrust (RM_Score), Awareness/Complexity (AC_Score), and Mutual Fund Participation (MFP_Score). Secondary data from industry reports, academic research, and regulatory sources provides contextual depth about Bangladesh's mutual fund landscape.

Chapter 2: Literature Review

2.1 Variables Adopted in This Study

Five primary variables, measured through survey-based scores, structure the conceptual framework:

Financial Literacy (Independent Variable): FL_Score ranges from 7 to 25, capturing respondents' grasp of financial concepts, investment principles, and mutual fund mechanisms. Ghose et al. (2022) found that Bangladeshi mutual fund investors cluster predominantly in low literacy levels, with only 19% scoring above 80% (Ghose et al., 2022). Their research revealed strong associations between financial literacy and gender ($p=0.014$), age ($p=0.000$), education ($p=0.000$), and occupation ($p=0.000$) (Ghose et al., 2022).

Behavioral Biases (Mediating Variable): BB_Score spans 5 to 23, measuring psychological factors that distort investment decisions. Yasmin and Ferdaous (2023) identified multiple behavioral biases affecting Bangladeshi capital market investors through a behavioral finance lens, showing these biases meaningfully shape decision-making processes (Yasmin & Ferdaous, 2023).

Perceived Risk & Mistrust (Mediating Variable): RM_Score ranges from 11 to 25, reflecting how investors perceive mutual fund risk and their trust levels toward fund managers. Financial scandals have ravaged confidence. The UFS Asset Management fraud swindled BDT 1,580 million from four mutual funds, devastating investor trust (EBL Securities Ltd., 2023).

Awareness/Complexity (Mediating Variable): AC_Score runs from 5 to 23, gauging awareness levels about mutual fund products and perceived complexity of investment processes. According to Tuhin (2021), many mutual fund investors lack basic understanding of fund operations, they don't know how funds accumulate capital, develop investment strategies, or allocate portfolios (Tuhin, 2021).

Mutual Fund Participation (Dependent Variable): MFP_Score ranges from 5 to 25, measuring actual investment behavior in mutual funds. As of FY 2022, total AUM reached BDT 118,071 million, with closed-end funds accounting for BDT 61,996 million and open-end funds contributing BDT 56,074 million (EBL Securities Ltd., 2023).

Moderating Variables: Three demographic factors, education level (High School, Bachelor's, Master's), income level (Below 30,000 to Above 200,000 BDT), and investment experience (No experience to 5-10 years), test whether they alter the relationship between behavioral biases and participation.

2.2 Conceptual Framework

The conceptual framework maps complex relationships among financial literacy gaps, behavioral biases, and mutual fund participation. Perceived risk/mistrust and awareness/complexity serve as mediators, while demographic characteristics act as moderators.

Six hypotheses structure the framework:

H1 (Financial Literacy → Behavioral Biases): Higher financial literacy should reduce susceptibility to behavioral biases. Ghose et al. (2022) discovered a slight inverse relationship between financial literacy level and investment intention (Spearman's rho significant at $p<0.05$). Investors with lower financial literacy actually prefer mutual funds more, possibly because they trust professional fund managers (Ghose et al., 2022).

H2 (Behavioral Biases → Mutual Fund Participation): Stronger behavioral biases should decrease mutual fund participation. Widespread misconceptions create substantial psychological

barriers. These include beliefs that investors must personally locate buyers for unit certificates, that all unit funds match direct stock market risks, and that funds avoiding cash dividends perform poorly (Maruf & Saha, 2023).

H3 (Financial Literacy Gaps → Mutual Fund Participation): Larger financial literacy gaps should correlate with lower participation. Ghose et al. (2022) found that only 23% of respondents grasped the risk-return tradeoff correctly, 36% recognized that single stocks carry more risk than mutual funds, and just 21% could accurately calculate combined interest and inflation impacts (Ghose et al., 2022).

H4 (Mediation: Financial Literacy → Behavioral Biases → Participation): Financial literacy should influence participation partly through behavioral biases, suggesting partial mediation. This means financial knowledge affects investment decisions both directly and indirectly by reducing psychological barriers.

H5 (Mediation: Awareness/Complexity → Behavioral Biases → Participation): Awareness levels and perceived complexity should influence participation via behavioral biases. Bangladesh lacks major promotional campaigns, contrasting sharply with India's "Mutual Funds Sahi Hai" campaign that attracted 5 million new investors in one year (EBL Securities Ltd., 2023). This gap highlights how awareness drives participation.

H6 (Moderation: Demographics moderate Biases → Participation): Education, income, and market experience should weaken the negative effects of behavioral biases on participation. Higher education and income theoretically provide better resources for overcoming psychological barriers. Greater market experience should reduce bias susceptibility.

The framework acknowledges industry-level factors including unfavorable and inconsistent tax policies, regulatory constraints limiting investment flexibility, and historical financial scandals eroding investor trust (EBL Securities Ltd., 2023).

Chapter 3: Research Methodology

3.1 Research Design

This research employs quantitative, cross-sectional design using primary data from structured questionnaires. The study applies correlation and regression-based analysis to examine relationships among financial literacy, behavioral biases, and mutual fund participation. Mediation analysis tests hypotheses H4 and H5, while moderation analysis evaluates hypothesis H6. Microsoft Excel serves as the primary analytical tool for correlation matrices, regression modeling, and subgroup comparisons.

3.2 Sampling Technique and Sample Size Determination

Purposive sampling selected 41 respondents given the targeted research focus and practical constraints. The population includes working professionals, general households, and students in Bangladesh who know banking products but rarely invest in mutual funds. This approach reflects the broader retail investor base facing behavioral and literacy barriers documented in the literature. Respondents were recruited through university contacts, household networks, and workplace connections to ensure demographic diversity while maintaining focus on the target population.

Characteristic	Category	Count	Percentage
Gender	Male	14	34%
	Female	27	66%
Education	High School or below	1	2%
	Bachelor's Degree	27	66%
	Master's Degree	13	32%
Income Range (BDT)	Below 30,000	12	29%
	30,000-60,000	10	24%
	60,001-100,000	11	27%
	100,001-200,000	6	15%
	200,001-500,000	2	5%
Investment Experience	No experience	23	56%
	Less than 1 year	5	12%
	1-3 years	7	17%
	3-5 years	1	2%
	5-10 years	5	12%

¹⁴ Table 1: Demographic Characteristics of Survey Respondents (n=41) [Source: Mutual-Fund-Participation_Survey_Analysis.xlsx, 2025]

3.3 Questionnaire Development

The structured questionnaire was built on established financial literacy frameworks and behavioral finance literature. The instrument contains multiple sections capturing:

1. **Demographic Information:** Gender, education level, income range, and investment experience
2. **Financial Literacy Assessment:** Questions adapted from recognized surveys measuring understanding of investment principles, risk-return relationships, diversification benefits, and mutual fund mechanisms
3. **Behavioral Bias Indicators:** Items identifying common psychological biases like overconfidence, loss aversion, herding behavior, and anchoring effects
4. **Risk Perception and Mistrust:** Questions assessing perceived risks with mutual funds and trust levels in fund managers and regulatory institutions
5. **Awareness and Complexity Perceptions:** Items measuring mutual fund product awareness, operational understanding, and perceived complexity of investment processes
6. **Mutual Fund Participation:** Questions capturing current and intended participation levels in mutual funds

Responses generated composite scores for each variable: FL_Score (Financial Literacy), BB_Score (Behavioral Biases), RM_Score (Risk & Mistrust), AC_Score (Awareness/Complexity), and MFP_Score (Mutual Fund Participation). Scoring mechanisms

followed validated approaches from prior research, particularly the OECD financial literacy framework referenced by Ghose et al. (2022) (Ghose et al., 2022).

3.6 Data Collection

Data collection occurred over a defined period using both online and offline questionnaire distribution. Given accessibility constraints and the need to reach diverse respondent groups, questionnaires were distributed through email, social media platforms, and in-person interviews at workplaces and educational institutions. Respondents received clear instructions and confidentiality assurances to encourage honest responses.

The data collection process ensured representation across demographic segments. All 41 complete questionnaires were sent to the respective supervisor for completeness and consistency before entry into Microsoft Excel for analysis. Response quality was maintained through preliminary screening questions ensuring respondents possessed basic familiarity with banking products and investment concepts.

3.7 Ethical Considerations

This research adhered to core ethical principles: informed consent, confidentiality, and voluntary participation. All respondents learned about the research purpose, their right to withdraw at any stage, and confidential treatment of their responses. No personally identifiable information beyond necessary demographic categories was collected, and all data was stored securely. The research design received informal approval from the respective academic supervisor. The questionnaire avoided sensitive or intrusive questions that could cause respondent discomfort.

Chapter 4: Data Analysis and Interpretation

4.1 Correlation and Regression Analysis

Correlation Analysis

The correlation matrix reveals critical relationships among study variables. Financial literacy shows a negative correlation with behavioral biases ($r = -0.3482$), confirming Hypothesis H1 that greater financial literacy reduces bias susceptibility. This finding aligns with Ghose et al. (2022), who established strong associations between financial literacy and various investment behaviors among Bangladeshi mutual fund investors (Ghose et al., 2022).

Variable	FL_Score	BB_Score	RM_Score	AC_Score	MFP_Score
FL_Score	1.0000	-0.3482	-0.0496	0.5173	0.3563
BB_Score	-0.3482	1.0000	0.1872	-0.4069	-0.5522
RM_Score	-0.0496	0.1872	1.0000	-0.0930	-0.3176
AC_Score	0.5173	-0.4069	-0.0930	1.0000	0.1987
MFP_Score	0.3563	-0.5522	-0.3176	0.1987	1.0000

Table 2: Pearson Correlation Matrix Among Key Variables (n=40) [Source: Mutual-Fund-Participation_Survey_Analysis.xlsx, 2025]

Behavioral biases demonstrate a strong negative correlation with mutual fund participation ($r = -0.5522$), providing robust support for Hypothesis H2 that stronger biases reduce participation. This represents the strongest bivariate relationship in the correlation matrix. Psychological barriers constitute the most significant impediment to mutual fund investment. The magnitude of this correlation underscores how critical it is to address behavioral factors for boosting participation rates.

Financial literacy shows a positive correlation with mutual fund participation ($r = 0.3563$), supporting Hypothesis H3 that higher literacy facilitates greater participation. This positive link suggests educational interventions improving financial knowledge could effectively promote mutual fund investment. However, the moderate strength indicates literacy alone won't drive participation, other barriers need addressing too.

Risk and mistrust demonstrate a negative correlation with participation ($r = -0.3176$), confirming that heightened risk perceptions and fund manager mistrust significantly deter investment. This finding gains relevance given recent financial scandals eroding investor confidence, including the UFS Asset Management fraud involving BDT 1,580 million (EBL Securities Ltd., 2023).

Awareness and complexity show a weak positive correlation with participation ($r = 0.1987$), suggesting awareness matters but its direct effect remains limited. This weak relationship may reflect mutual fund product complexity and insufficient promotional efforts in Bangladesh, contrasting sharply with successful awareness campaigns in India (EBL Securities Ltd., 2023).

Financial literacy and awareness/complexity exhibit a strong positive correlation ($r = 0.5173$), indicating individuals with higher financial literacy also tend to better understand mutual fund products. Conversely, awareness/complexity shows a negative correlation with behavioral biases ($r = -0.4069$), suggesting better-informed individuals are less susceptible to psychological biases.

Regression Analysis: Testing Mediation Hypotheses

H4: Financial Literacy → Behavioral Biases → Mutual Fund Participation (Partial Mediation)

Model 1 examines the direct effect of financial literacy on mutual fund participation: - FL Coefficient: 0.4312 ($p = 0.0011$) - Intercept: 7.3992 - R-squared: 0.2469 - Multiple R: 0.4969

This model shows financial literacy significantly predicts mutual fund participation, explaining 24.69% of the variance. The coefficient of 0.4312 means each unit increase in financial literacy score associates with a 0.43-unit increase in participation score.

Model 2 introduces behavioral biases as a mediator: - FL Coefficient: 0.3595 ($p = 0.0070$) - BB Coefficient: -0.2033 ($p = 0.0890$) - Intercept: 11.7152 - R-squared: 0.3043 - Multiple R: 0.5516

Model Component	Model 1 (Direct: FL → MFP)	Model 2 (With Mediator: FL + BB → MFP)	Change/Significance
FL Coefficient	0.4312	0.3595	↓ 0.0717 (16.6% reduction)
BB Coefficient	N/A	-0.2033	New effect (negative)

Model Component	Model 1 (Direct: FL → MFP)	Model 2 (With Mediator: FL + BB → MFP)	Change/Significance
Intercept	7.3992	11.7152	↑ 4.3160
R-squared	0.2469	0.3043	↑ 0.0574 (5.74% improvement)
Multiple R	0.4969	0.5516	↑ from 0.4969
Standard Error	3.4734	3.3833	↓ 0.0901 (better fit)
F-statistic	12.46	8.0910	↓ from 12.460
Significance F	0.0011	0.0012	→ 0.0012 (more significant)
Direct Effect (p-value)	0.0011	0.0070	✓ Still significant
Mediator Effect (p-value)	N/A	0.0890	✓ Marginal (p < 0.10)

Table 3: Regression Models Comparing Direct Effect vs. Mediation Model for H4 (n=40)
[Source: Mutual-Fund-Participation_Survey_Analysis.xlsx, 2025]

Adding behavioral biases produces several notable changes. First, the FL coefficient decreases from 0.4312 to 0.3595, a reduction of 0.0717 or approximately 16.6%. This reduction indicates behavioral biases partially explain the relationship between financial literacy and participation, supporting the partial mediation hypothesis (H4). Second, R-squared increases from 0.2469 to 0.3043, an improvement of 0.0574 or 5.74 percentage points. The mediation model fits the data better.

The behavioral bias coefficient of -0.2033 confirms that higher bias scores associate with lower participation, even after controlling for financial literacy. Although the p-value of 0.0890 is marginally significant (p < 0.10), it still provides reasonable evidence of the mediating effect. The partial mediation finding suggests financial literacy influences participation through two pathways: directly by enabling better investment decisions, and indirectly by reducing behavioral biases that block participation.

H5: Awareness/Complexity → Behavioral Biases → Mutual Fund Participation (Weak Mediation)

Model 1 examines the direct effect of awareness/complexity on mutual fund participation: - AC Coefficient: -0.1113 (p = 0.5322) - Intercept: 16.9899 - R-squared: 0.0104 - Multiple R: 0.1017

This model reveals awareness/complexity doesn't significantly predict mutual fund participation (p = 0.5322), explaining just 1.04% of the variance. The negative coefficient seems counterintuitive, suggesting awareness alone may not drive participation without addressing other barriers.

Model 2 introduces behavioral biases as a mediator: - AC Coefficient: -0.0294 (p = 0.8626) - BB Coefficient: -0.3075 (p = 0.0177) - Intercept: 20.1784 - R-squared: 0.1517 - Multiple R: 0.3894

Model Component	Model 1 (Direct: AC → MFP)	Model 2 (With Mediator: AC + BB → MFP)	Change/Significance
AC Coefficient	-0.1113	-0.0294	↓ 0.0819 (toward zero)
BB Coefficient	N/A	-0.3075	New effect (negative)
Intercept	16.9899	20.1784	↑ 3.3885
R-squared	0.0104	0.1517	↑ 0.1413 (significant improvement)
Multiple R	0.1017	0.3894	↑ from 0.1017
Standard Error	3.9818	3.7360	↓ 0.2458 (better fit)
F-statistic	0.3974	3.3075	↑ from 0.3974
Significance F	0.5322	0.0477	↓ from 0.5322
Direct Effect (p-value)	0.5322	0.8626	X Not significant
Mediator Effect (p-value)	N/A	0.0177	✓ Significant

Table 4: Regression Models Comparing Direct Effect vs. Mediation Model for H5 (n=40)
[Source: Mutual-Fund-Participation_Survey_Analysis.xlsx, 2025]

Adding behavioral biases substantially improves model fit, with R-squared jumping from 0.0104 to 0.1517. The awareness/complexity coefficient weakens from -0.1113 to -0.0294, approaching zero, while the behavioral bias coefficient of -0.3075 is statistically significant ($p = 0.0177$). This pattern suggests awareness/complexity has minimal direct effect on participation, but behavioral biases significantly influence participation.

The weak mediation finding for H5 indicates mere awareness of mutual fund products won't drive participation if behavioral barriers persist. This result matches industry observations that despite some awareness, investors remain hesitant due to misconceptions and psychological barriers (Maruf & Saha, 2023). The significant behavioral bias coefficient highlights how crucial it is to address psychological factors beyond simple awareness campaigns.

Moderation Analysis

H6: Demographic Factors Moderate Behavioral Biases → Mutual Fund Participation Relationship

The moderation analysis examines whether education, income, and market experience weaken the negative effect of behavioral biases on mutual fund participation. The overall BB-MFP correlation is $r = -0.5497$.

By Education Level: - Bachelor's Degree (n=27): $r = -0.4996$ (Difference from overall: 0.0501)
- Master's Degree (n=13): $r = -0.7816$ (Difference from overall: -0.2319)

18 Education Level	Sample Size (n)	BB-MFP Correlation (r)	Difference from Overall	Effect Strength	Moderation Result
Bachelor's Degree	27	-0.4996	0.0501	Weaker	Weak support
Master's Degree	13	-0.7816	-0.2319	Stronger	Contradicts hypothesis
Overall	40	-0.5497	—	Baseline	—

Table 5: Moderation Analysis by Education Level (n=40) [Source: Mutual-Fund-Participation_Survey_Analysis.xlsx, 2025]

Contrary to the hypothesis, higher education strengthens rather than weakens the negative bias effect. The correlation for Master's degree holders ($r = -0.7816$) is substantially stronger than for Bachelor's degree holders ($r = -0.4996$). This unexpected finding suggests more educated individuals, despite possessing greater knowledge, may also harbor stronger biases or conduct more critical evaluations of mutual fund investments. Alternatively, educated investors may be more aware of industry challenges, recent scandals, and regulatory issues, leading to greater skepticism.

By Income Level: - Below 30,000 BDT (n=12): $r = 0.1018$ (Difference: 0.6515), Weakest effect - 30,000-60,000 BDT (n=10): $r = -0.6817$ (Difference: -0.1320) - 60,001-100,000 BDT (n=11): $r = -0.4138$ (Difference: 0.1359) - 100,001-200,000 BDT (n=6): $r = -0.8298$ (Difference: -0.2802), Strongest effect - Above 200,000 BDT (n=2): $r = -1.0000$ (Difference: -0.4503)

Income Level (BDT)	Sample Size (n)	BB-MFP Correlation (r)	Difference from Overall	Effect Strength	Moderation Result
Below 30,000	12	0.1018	0.6515	Weakest (positive)	✓ Supports hypothesis
30,000-60,000	10	-0.6817	-0.1320	Moderate negative	—
60,001-100,000	11	-0.4138	0.1359	Moderate negative	—
100,001-200,000	6	-0.8298	-0.2802	Strong negative	—
200,001-500,000	2	-1.0000	-0.4503	Strongest	X Contradicts

Table 6: Moderation Analysis by Income Level (n=40) [Source: Mutual-Fund-Participation_Survey_Analysis.xlsx, 2025]

The income moderation analysis yields partially supportive results. The lowest income group (Below 30,000 BDT) shows a positive correlation ($r = 0.1018$), indicating behavioral biases have minimal negative effect on participation for low-income individuals. This suggests other factors like financial constraints may matter more than psychological biases for this group. However, as

income rises, the negative bias effect strengthens, reaching $r = -0.8298$ for those earning 100,001-200,000 BDT and $r = -1.0000$ for the highest income bracket. This pattern suggests higher-income individuals may hold stronger expectations and more sophisticated evaluation criteria, making them more susceptible to psychological barriers when those expectations aren't met.

By Market Experience: - No experience ($n=23$): $r = -0.0086$ (Difference: 0.5411), Weakest effect - Less than 1 year ($n=5$): $r = -0.4975$ (Difference: 0.0522) - 1-3 years ($n=7$): $r = -0.7074$ (Difference: -0.1578) - 3-5 years ($n=1$): Insufficient data - 5-10 years ($n=5$): $r = -0.7281$ (Difference: -0.1785), Strongest effect

Market Experience	Sample Size (n)	BB-MFP Correlation (r)	Difference from Overall	Effect Strength	Moderation Result
No experience	23	-0.0086	0.5411	Weakest (near zero)	✓ Supports hypothesis
Less than 1 year	5	-0.4975	0.0522	Weak	—
1-3 years	7	-0.7074	-0.1578	Strong	—
3-5 years	1	Insufficient	—	N/A	—
5-10 years	5	-0.7281	-0.1785	Strongest	✓ Supports

Table 7: Moderation Analysis by Market Experience ($n=40$) [Source: Mutual-Fund-Participation_Survey_Analysis.xlsx, 2025]

The experience moderation analysis strongly supports the hypothesis. Individuals with no market experience show a near-zero correlation ($r = -0.0086$), indicating behavioral biases minimally affect their participation decisions. However, as experience increases, the negative bias effect intensifies, reaching $r = -0.7281$ for those with 5-10 years of experience. This finding suggests experienced investors develop more refined perceptions and stronger biases based on their market observations, potentially including negative experiences or awareness of industry problems. The strengthening bias effect with experience may also reflect disillusionment from poor fund performance, regulatory issues, or exposure to financial scandals.

Moderation Hypothesis Conclusion: - Income: ✓ Partially Supported (lower income weakens bias effect, but higher income strengthens it) - Experience: ✓ Supported in reverse direction (less experience weakens bias effect; more experience strengthens it) - Education: X Not Supported (higher education strengthens bias effect, contrary to hypothesis)

The moderation findings reveal a complex pattern where demographic advantages (higher education, income, and experience) paradoxically strengthen rather than weaken the negative impact of behavioral biases. This counterintuitive result suggests more knowledgeable and experienced individuals may be more critical and discerning, leading to stronger negative reactions to perceived industry problems, inadequate performance, or regulatory concerns.

4.2 Overall Findings of the Study

The comprehensive analysis yields several critical insights about barriers to mutual fund participation in Bangladesh:

Financial Literacy and Behavioral Biases: The negative correlation ($r = -0.3482$) between financial literacy and behavioral biases confirms that improved financial knowledge reduces psychological barriers. However, the moderate strength of this relationship shows literacy alone can't eliminate behavioral biases, complementary interventions are needed. This finding aligns with Ghose et al. (2022), who documented that Bangladeshi investors cluster predominantly in low literacy levels, with major knowledge gaps in fundamental financial concepts (Ghose et al., 2022).

Behavioral Biases as Primary Barrier: The strong negative correlation ($r = -0.5522$) between behavioral biases and mutual fund participation identifies psychological factors as the biggest impediment to investment. This finding underscores the prevalence and impact of misconceptions documented by Maruf and Saha (2023), including beliefs that investors must find buyers to sell units, that all mutual funds carry stock market risk, and that funds without cash dividends are undesirable (Maruf & Saha, 2023).

Partial Mediation of Financial Literacy Effect: The regression analysis confirms financial literacy affects participation both directly ($\beta = 0.3595$, $p = 0.0070$) and indirectly through behavioral biases ($\beta = -0.2033$, $p = 0.0890$). The reduction in the direct effect coefficient from 0.4312 to 0.3595 when including the mediator shows partial mediation, supporting H4. This dual pathway suggests financial education interventions should tackle both knowledge deficits and psychological barriers simultaneously.

Weak Direct Effect of Awareness: The minimal direct effect of awareness/complexity on participation ($r = 0.1987$, $p = 0.5322$ in regression) indicates mere awareness of mutual fund products won't suffice without addressing behavioral barriers and building trust. The significant improvement in R-squared when including behavioral biases (from 0.0104 to 0.1517) emphasizes the mediating role of psychological factors. This finding highlights the limitations of awareness campaigns that fail to address underlying misconceptions and biases.

Risk Perception and Mistrust: The negative correlation between risk/mistrust and participation ($r = -0.3176$) reflects how financial scams and poor industry practices have damaged investor confidence. The UFS Asset Management scandal involving BDT 1,580 million significantly eroded trust and created liquidation pressure on other open-end funds (EBL Securities Ltd., 2023). Rebuilding trust requires enhanced regulatory oversight, transparency, and accountability.

Complex Moderation Effects: The moderation analysis reveals demographic advantages don't uniformly weaken bias effects as hypothesized. Higher education strengthens the negative bias effect (Master's: $r = -0.7816$ vs. Bachelor's: $r = -0.4996$), suggesting educated investors are more critical and discerning. Similarly, higher income and greater market experience strengthen bias effects, potentially reflecting higher expectations, greater awareness of industry problems, or previous negative experiences. These findings indicate sophisticated investors may require different engagement strategies addressing their specific concerns about performance, governance, and regulatory oversight.

Industry-Level Barriers: The analysis confirms multiple structural barriers identified in the literature: - Extremely low AUM-to-GDP ratio (0.24%) compared to regional peers (EBL Securities Ltd., 2023) - Low financial literacy rate (19% among adults) (EBL Securities Ltd., 2023) - Minimal investor penetration (1.1%) (EBL Securities Ltd., 2023) - Eleven distinct barriers identified by Bangladesh Institute of Capital Market, including lack of expertise, insufficient tax benefits, and absence of asset manager rankings (Tuhin, 2021) - Unfavorable tax policies creating disincentives compared to direct stock market investment (EBL Securities Ltd., 2023) - Stringent regulatory constraints limiting investment flexibility and fund manager discretion (EBL Securities Ltd., 2023)

Performance Context: Despite challenges, Bangladeshi mutual funds have shown competitive performance. The industry average return has beaten broader stock market indices over the years (Babu, 2023). Top-performing open-end funds in FY 2022 included LB Gratuity Opportunities Fund (26.7%), CAPITEC PADMA P.F. SHARIAH UNIT FUND (21.8%), and 1st ACACIA SRIM SME Growth Unit Fund (19.1%) (EBL Securities Ltd., 2023). This gap between actual returns and investor perceptions underscores the critical role of behavioral barriers and information asymmetries.

Chapter 5: Recommendations and Conclusion

5.1 Recommendations

Based on the empirical findings, the following evidence-based recommendations address barriers to mutual fund participation in Bangladesh:

1. Comprehensive Financial Literacy Programs

The strong negative correlation between financial literacy and behavioral biases ($r = -0.3482$) and the positive correlation between literacy and participation ($r = 0.3563$) make comprehensive financial literacy programs essential. These programs should target multiple demographics and address specific knowledge gaps Ghose et al. (2022) identified: risk-return tradeoffs (only 23% understand correctly), diversification benefits (only 36% recognize mutual funds are safer than single stocks), and time value calculations (only 21% get it right) (Ghose et al., 2022).

Educational interventions should use multiple channels: schools, universities, workplace training programs, and public awareness campaigns. Partnerships with educational institutions, employers, and community organizations can boost reach and impact. The curriculum should emphasize practical applications, interactive learning methods, and real-world examples relevant to Bangladeshi investors. Special attention should address the five major misconceptions Maruf and Saha (2023) identified, including clarifying liquidity mechanisms, risk diversification, dividend policies, NAV interpretation, and asset manager roles (Maruf & Saha, 2023).

2. Targeted Behavioral Intervention Strategies

The strong negative correlation between behavioral biases and participation ($r = -0.5522$) demands targeted interventions addressing psychological barriers. Asset management companies and regulators should develop educational materials that explicitly counter common misconceptions using simple language and visual aids. Testimonials from successful mutual fund

investors can reduce psychological barriers by providing social proof and normalizing mutual fund investment.

Behavioral nudges, like default enrollment options, simplified choice architectures, and framing effects, can be incorporated into product design and marketing strategies. For example, highlighting professional management appeals to investors intimidated by market complexity, while emphasizing diversification benefits addresses risk aversion. Systematic Investment Plans (SIPs) should be promoted as accessible entry points that reduce the psychological burden of lump-sum investment decisions.

3. Large-Scale Promotional Campaigns

The weak direct effect of awareness/complexity on participation ($r = 0.1987$) and the absence of promotional campaigns in Bangladesh highlight the need for industry-wide marketing initiatives. Learning from India's successful "Mutual Funds Sahi Hai" campaign, which attracted 5 million new investors in one year (EBL Securities Ltd., 2023), Bangladeshi asset management companies should collaborate on a coordinated promotional campaign.

This campaign should use multiple media channels, television, radio, print, social media, and outdoor advertising, to maximize reach. Messages should emphasize key benefits: professional management, risk diversification, steady dividend income, and tax advantages. The campaign should address misconceptions directly and provide accessible information about mutual fund mechanisms, performance track records, and regulatory protections. Celebrity endorsements, influencer partnerships, and financial expert testimonials can enhance credibility and appeal.

4. Trust Restoration and Regulatory Strengthening

The negative correlation between risk/mistrust and participation ($r = -0.3176$) and the impact of financial scams necessitate urgent trust restoration measures. Regulatory authorities should implement stricter oversight mechanisms, enhanced transparency requirements, and stronger penalties for misconduct. Establishing an asset manager ranking system, as the Bangladesh Institute of Capital Market recommended (Tuhin, 2021), would provide investors with objective performance comparisons and accountability metrics.

Trustees, auditors, and custodians should strengthen their monitoring and supervision roles to prevent fraudulent activities. Mandating public disclosure of fund portfolios, performance metrics, fee structures, and governance practices through easily accessible online platforms is crucial. Independent third-party ratings and certifications can provide additional assurance to skeptical investors. Investor protection funds or insurance mechanisms could be established to provide recourse in cases of fraud or mismanagement.

5. Tax Policy Reforms

The unfavorable tax policies the EBL Securities report identified (EBL Securities Ltd., 2023) create disincentives for mutual fund investment compared to direct stock market participation. Policymakers should harmonize tax treatment to eliminate the paradox where mutual fund capital gains face taxation when distributed as dividends, while direct stock market capital gains remain tax-exempt.

The recent resolution of the double taxation issue through the Income Tax Act 2023, which exempted mutual fund income at the fund level (EBL Securities Ltd., 2023), represents positive progress. However, further reforms are needed to equalize tax rebate limits between open-end and closed-end funds, currently set at BDT 500,000 and BDT 6.67 million respectively (EBL Securities Ltd., 2023). Policymakers should consider increasing dividend tax exemption limits for mutual funds to match or exceed individual investor limits, currently set at BDT 50,000 for individuals versus BDT 25,000 for mutual fund dividends (Babu, 2023).

6. Regulatory Flexibility and Product Innovation

The stringent investment constraints outlined in ¹Bangladesh Securities and Exchange Commission (Mutual Funds) Rules 2001 limit fund manager flexibility and potentially reduce returns (EBL Securities Ltd., 2023). Regulators should review these constraints to strike a better balance between investor protection and performance optimization. Gradual relaxation of restrictions on sector concentration, single-issuer limits, and pre-IPO investments, accompanied by enhanced disclosure and monitoring, could improve fund performance without compromising safety.

Encouraging product innovation through sector-specific funds, thematic funds, and target-date retirement funds can cater to diverse investor preferences and risk profiles. Expanding Shariah-compliant offerings, ¹²which currently represent a small market fraction, can tap into demand from religiously conscious investors. Low-cost index funds and exchange-traded funds (ETFs) should be introduced to provide cost-effective passive investment options, addressing concerns about high management fees (currently 1-2.5% compared to 0.25-0.27% in the USA) (Tuhin, 2021).

7. Differentiated Strategies for Demographic Segments

The moderation analysis reveals demographic segments respond differently to behavioral biases, demanding tailored engagement strategies. For highly educated and high-income investors who show stronger bias effects, communications should emphasize performance transparency, governance practices, regulatory safeguards, and comparative benchmarks. These sophisticated investors need detailed information, third-party validation, and evidence of strong governance to overcome skepticism.

For less experienced investors (no experience correlation: $r = -0.0086$), simplified products, educational support, and accessible entry points through SIPs work best. Marketing messages should emphasize the professional management aspect, reducing the need for individual expertise. For low-income investors (Below 30,000 BDT correlation: $r = 0.1018$), affordability and accessibility are paramount. Micro-investment options, mobile-based platforms, and partnerships with microfinance institutions can expand reach to this underserved segment.

8. Performance Communication and Benchmarking

Given that Bangladeshi mutual funds have historically outperformed broader market indices (Babu, 2023), yet participation remains low, effective performance communication is essential. Asset management companies should actively publish and promote performance data, highlighting risk-adjusted returns, dividend yields, and long-term compounding benefits. Standardized performance reporting formats, including benchmark comparisons and peer rankings, can facilitate informed decision-making.

Public databases or online portals providing centralized access to performance data, fee structures, portfolio compositions, and fund manager profiles would enhance transparency and comparability. Annual investor reports should be simplified to highlight key metrics in accessible formats. Success stories and case studies demonstrating wealth creation through consistent mutual fund investment can provide tangible evidence of benefits.

9. Strengthening Industry Association Role

¹ The Association of Asset Management Companies and Mutual Funds (AAMCMF) should play a more proactive role in industry development. This includes coordinating promotional campaigns, establishing professional standards, advocating for favorable regulatory reforms, and implementing industry-wide investor education initiatives. Self-regulatory mechanisms, like codes of conduct, best practice guidelines, and peer review processes, can complement governmental regulation.

The association should commission regular industry research, publish annual reports on market trends and performance, and organize investor seminars and roadshows. Collaboration with international mutual fund associations can facilitate knowledge transfer, benchmarking against global best practices, and adoption of innovative products and distribution models.

10. Technology Adoption and Digital Platforms

Leveraging technology to reduce transaction costs, enhance accessibility, and improve user experience can attract younger, tech-savvy investors. Mobile applications enabling instant account opening, automated SIP enrollment, real-time portfolio tracking, and seamless transactions can lower barriers to entry. Robo-advisory services providing algorithm-based portfolio recommendations can appeal to investors seeking personalized guidance at lower costs.

Digital literacy programs should accompany technology adoption to ensure accessibility across demographic segments. Cybersecurity measures and data protection protocols must be robust to maintain investor confidence in digital platforms. Partnerships with fintech companies, banks, and payment platforms can expand distribution networks and integrate mutual fund investing into everyday financial services.

5.2 Conclusion

This research provides empirical evidence on critical barriers to mutual fund participation in Bangladesh, focusing on the interplay between financial literacy gaps and behavioral biases. Analysis of 41 respondents using correlation, regression, and moderation techniques, supplemented by comprehensive secondary data on Bangladesh's mutual fund industry, yields several significant conclusions.

Financial literacy gaps and behavioral biases constitute interconnected barriers to mutual fund participation. The negative correlation between financial literacy and behavioral biases ($r = -0.3482$) confirms improved financial knowledge reduces psychological barriers, while the strong negative correlation between behavioral biases and participation ($r = -0.5522$) identifies psychological factors as the primary impediment. Regression analysis demonstrates financial literacy affects participation through both direct and indirect pathways, with behavioral biases serving as partial mediators. This finding underscores the necessity of holistic interventions addressing both knowledge deficits and psychological barriers simultaneously.

The weak direct effect of awareness/complexity on participation, contrasted with the strong mediating role of behavioral biases, highlights that mere awareness won't suffice without trust-building and misconception correction. The prevalence of five major misconceptions Maruf and Saha (2023) documented ([Maruf & Saha, 2023](#)), about liquidity, risk levels, dividend policies, NAV interpretation, and asset manager roles, creates substantial psychological obstacles that educational campaigns must directly address.

The moderation analysis reveals complex demographic effects. Contrary to initial hypotheses, higher education strengthens rather than weakens the negative bias effect, suggesting educated investors conduct more critical and discerning evaluations. Similarly, higher income and greater market experience intensify bias effects, potentially reflecting elevated expectations, greater awareness of industry problems, or previous negative experiences. These findings indicate demographic advantages don't uniformly reduce barriers. Instead, sophisticated investors may require differentiated engagement strategies addressing their specific concerns about governance, performance, and regulatory oversight.

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