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A Study on Passive Investing in India: Investor Adoption for Asset Management Companies

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Abstract:
Passive investing has become one of the fastest-growing investment strategies in India due to its low cost, transparency, and ease of investing. This study examines investor adoption, fund performance, and the strategic implications of passive investing for Asset Management Companies (AMCs). Primary data were collected from 108 retail investors through a structured questionnaire, while secondary data were obtained from AMFI, SEBI, SPIVA India reports, and published literature. The findings indicate that although awareness of passive investing is increasing, actual adoption remains limited due to lack of knowledge and investor education. The study also finds that passive funds offer competitive long-term returns with lower costs compared to actively managed funds. The research concludes that investor awareness, digital investment platforms, and regulatory support are essential for the future growth of passive investing in India.

Keywords: Passive Investing, Index Funds, ETFs, Investor Behaviour, Asset Management Companies, Mutual Funds.

I. INTRODUCTION

Passive investing is an investment strategy that aims to replicate the performance of a market index rather than outperform it through active stock selection. Products such as Index Funds and Exchange Traded Funds (ETFs) have gained significant popularity because they offer diversification, lower expense ratios, and transparency. In India, passive investing has experienced remarkable growth due to increasing financial literacy, digital investment platforms, and regulatory initiatives by SEBI.

Despite this growth, passive investing still represents a relatively small share of retail investments compared to developed countries. Many investors continue to prefer actively managed funds because of higher return expectations and limited awareness of passive products. Therefore, understanding investor behaviour and adoption patterns has become important for the mutual fund industry.

This study evaluates the adoption of passive investing in India, compares its performance with active funds, and analyses the strategic implications for Asset Management Companies.

Problem Statement

Although passive investing is growing rapidly in India, retail investor participation remains relatively low. Limited awareness, behavioural biases, and inadequate financial knowledge continue to restrict its adoption. At the same time, the growing popularity of passive funds is changing the business models of

Asset Management Companies. Therefore, there is a need to study investor adoption, fund performance, and the strategic implications of passive investing in India.

Objectives of the Study

- To study the adoption of passive investing among Indian investors.
- To compare the performance of passive and active investment funds.
- To analyse the strategic implications of passive investing for Asset Management Companies.

Significance of the Study

The study contributes to understanding the growth of passive investing in India. It provides useful insights for investors, Asset Management Companies, policymakers, and researchers. The findings help investors make informed investment decisions while assisting AMCs in designing suitable passive investment products and improving investor awareness.

LITERATURE REVIEW

Previous studies indicate that passive investing has become increasingly popular because of its lower costs, diversification, and consistent long-term performance. Gârleanu (2022) explained the relationship between active and passive investment strategies and their impact on market efficiency. Chowdary and Sekhar (2021) highlighted the growing importance of passive investing in emerging markets. Dhabolkar and Reddy (2019) reported that ETFs generally perform better than index mutual funds due to lower tracking errors. SPIVA India (2025) found that a majority of actively managed funds underperformed benchmark indices over the long term. Seth (2020) identified behavioural biases and lack of awareness as major barriers to passive investing. AMFI (2025) reported strong growth in passive fund assets under management, reflecting increasing investor acceptance in India.

RESEARCH METHODOLOGY

The study follows a descriptive research design using both primary and secondary data.

Research Design: Descriptive Research

Research Approach: Quantitative

Sources of Data:

- Primary Data: Structured questionnaire administered to 108 retail investors.
- Secondary Data: AMFI reports, SEBI publications, SPIVA India reports, research papers, journals, and websites.

Sample Size: 108 respondents

Sampling Technique: Convenience Sampling

Data Collection Tool: Structured Questionnaire

Data Analysis Techniques: Percentage analysis, charts, correlation analysis, and descriptive statistics.

I.RESULTS AND ANALYSIS

Primary Data Analysis Results

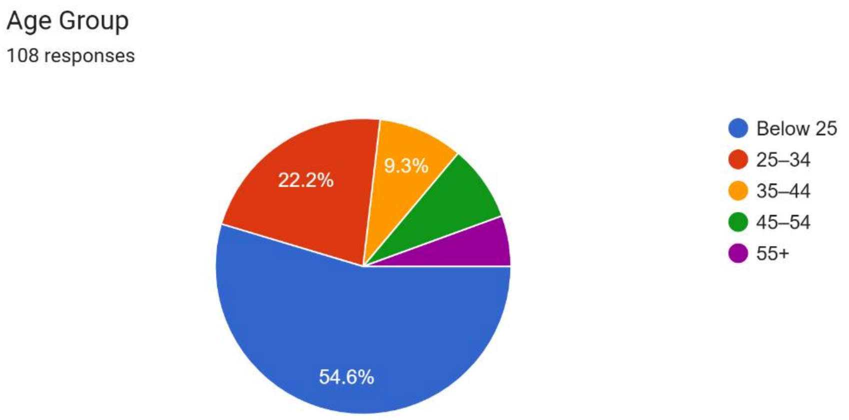

Fig. 1

The survey participants are primarily young, with 54.6% being under 25 years old and 22.2% in the 25-34 age range. This demonstrates that nearly three-quarters of the respondents are individuals under 35, showcasing a strong presence of millennial and Gen-Z investors. The decreasing representation in older demographics (with only 5.6% aged 55 and above) indicates that the survey captures the views of digitally-savvy, early-career investors who are likely to influence future trends in passive investing in India. This demographic tilt is significant for AMCs as it suggests a heightened need to engage younger audiences with educational resources and digital-first solutions.

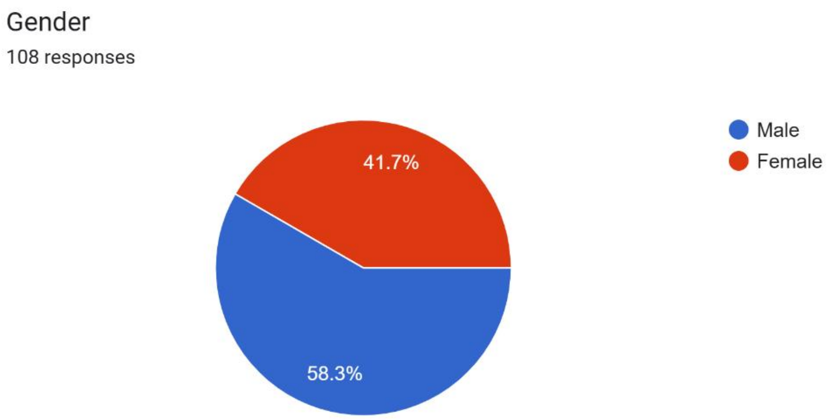

Fig. 2

The gender distribution reveals 58.3% male and 41.7% female respondents, indicating a relatively balanced though slightly male-dominant participation. This near equality hints at an increasing involvement of females in investment discussions, which is a promising sign for financial inclusion efforts.

However, the slight male predominance suggests there are opportunities for AMCs to better connect with female investors through targeted marketing and gender-sensitive financial literacy initiatives.

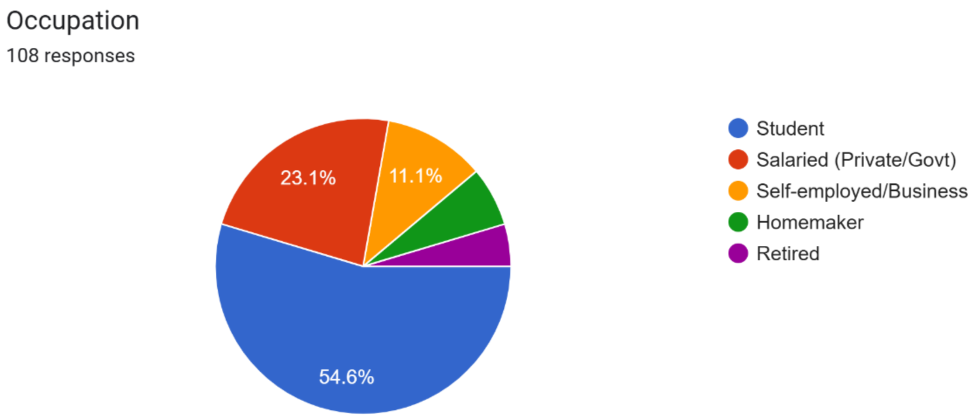

Fig. 3

The occupational distribution is heavily weighted towards students (54.6%), followed by salaried employees (23.1%) and self-employed/business individuals (11.1%). This student-majority aligns seamlessly with the age distribution and signifies that most respondents are just beginning their investment journey. For the research aims, this implies that the sample represents future investors, rather than those who are already established, making their adoption behaviors and educational requirements particularly pertinent for forecasting the growth of passive investing.

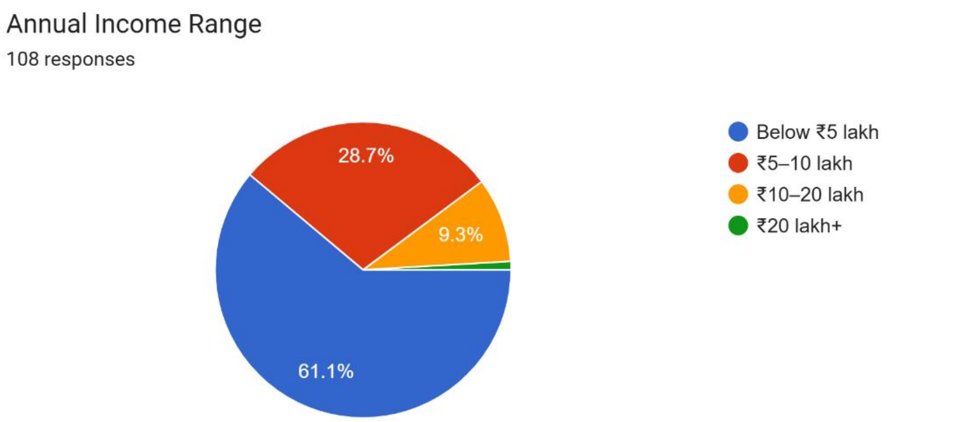

Fig. 4

Income levels show that 61.1% earn below ₹5 lakh annually, with 28.7% falling into the ₹5-10 lakh range. This concentration of lower-to-middle income corresponds with the student-heavy demographic, suggesting that most respondents have limited disposable income for investments. This has strategic implications for AMCs: these investors are likely to commence with small-ticket investments through SIPs on digital platforms, underscoring the necessity for low-cost passive products and accessible entry points. The negligible representation of higher-income earners (0.9% above ₹20 lakh) indicates that the sample primarily captures mass-market retail investors as opposed to high-net-worth individuals.

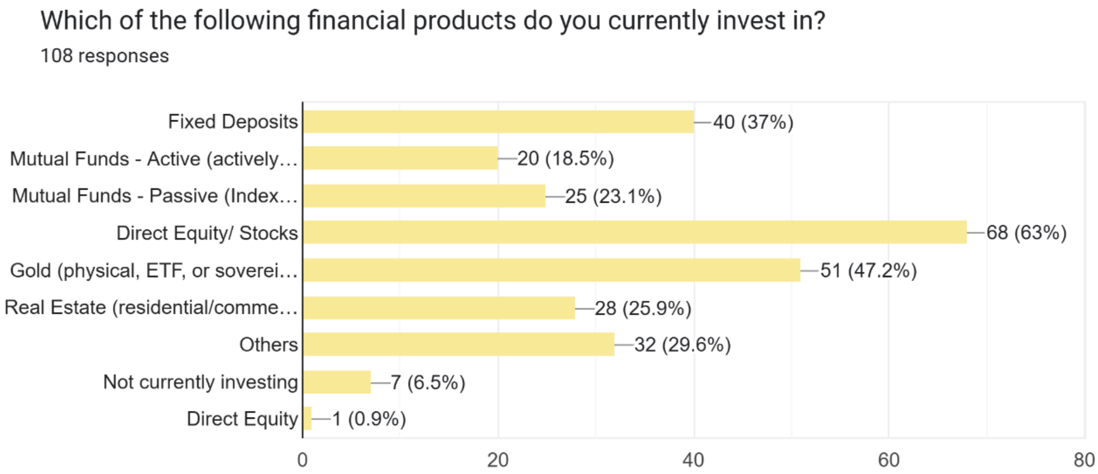

Fig. 5

Direct equity/stocks dominate participation with 63%, followed by gold (47.2%) and ETFs (47.2%). Remarkably, passive mutual funds exhibit only a 23.1% adoption rate despite substantial familiarity with ETFs, indicating a gap between awareness and actual engagement with passive funds. Fixed deposits (37%) continue to be favored, reflecting an ongoing preference for traditional safe investment vehicles. The fact that mutual fund engagement (both active at 18.5% and passive at 23.1%) trails behind direct equity participation suggests investors may perceive greater control and potential returns through individual stock selection compared to fund-based strategies. Only 6.5% are entirely non-investors, signifying a financially active sample.

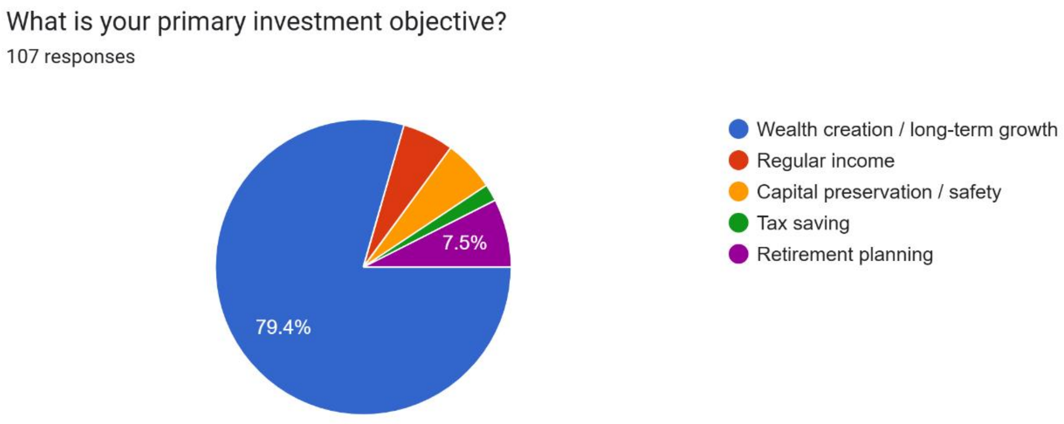

Fig. 6

An impressive 79.4% of respondents recognize wealth creation and long-term growth as their main goal, while only 7.5% prioritize retirement planning and 5.6% focus on income generation. This strong focus on growth among young investors fosters a favorable environment for passive investing, as index funds are tailored for accumulating wealth over time. However, the relatively low emphasis on retirement planning, despite its intrinsic long-term focus, highlights the necessity for financial education to assist investors in linking their growth objectives with structured passive investment approaches.

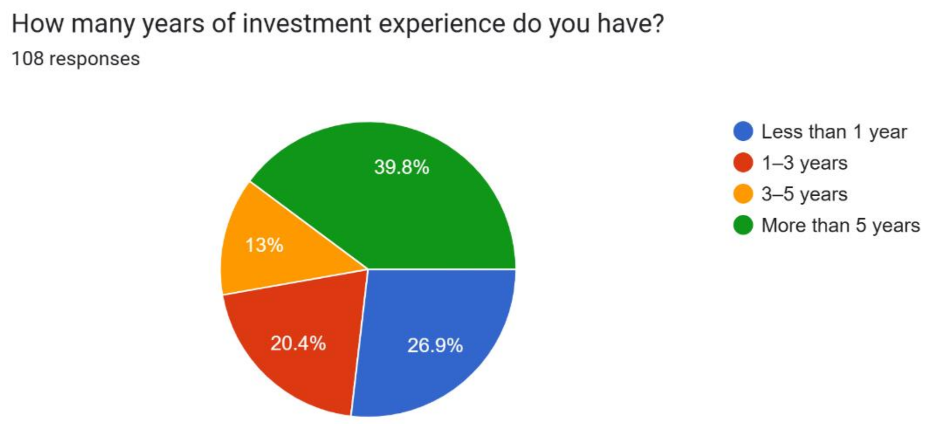

Fig. 7

The distribution of experience reveals that 39.8% have over five years of experience, 26.9% have less than one year, and the remainder falls into intermediate categories. This bimodal distribution illustrates two separate groups: seasoned investors (likely those delving into passive options) and complete novices (potential new adopters). The significant 26.9% of beginner investors represents a vital growth opportunity for passive funds, as these individuals are less likely to have ingrained biases against active management and may be more open to low-cost index investing with appropriate education.

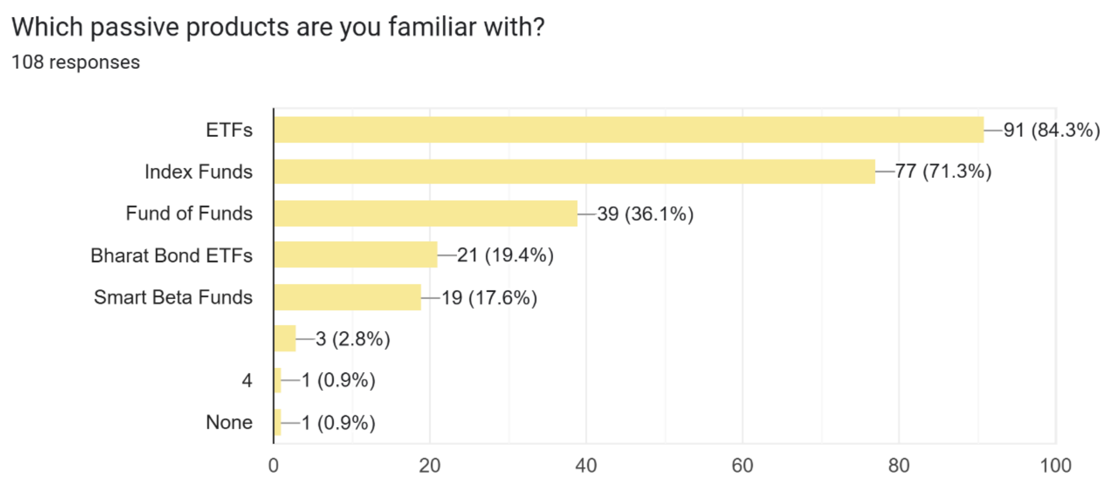

Fig. 8

ETFs lead awareness at 85%, followed by index funds (72%), while specialized products like Bharat Bond ETFs (19.6%) and Smart Beta Funds (17.8%) have limited recognition. This indicates strong top-of-mind awareness for mainstream passive products but weak penetration for newer or more sophisticated offerings. The high ETF familiarity versus lower passive fund investment (from Graph 9) suggests awareness doesn't automatically translate to adoption, highlighting an execution gap that AMCs must bridge through simplified onboarding and educational initiatives.

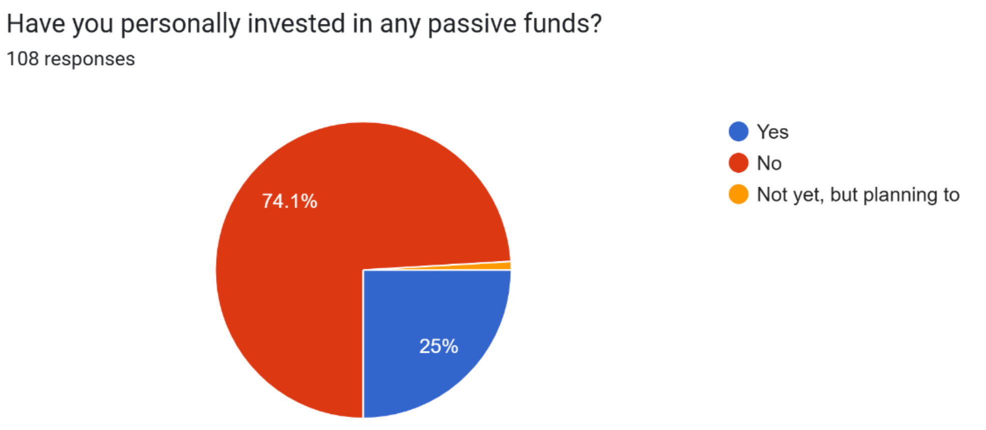

Fig. 9

Only 25% have actually invested in passive funds, while 74.1% have not, despite high product awareness. This critical adoption gap is the central challenge your research addresses. The mere 0.9% planning to invest indicates limited immediate conversion intent among non-investors. This graph validates the strategic importance of understanding barriers to adoption, as AMCs face a market with high awareness but low conversion, suggesting psychological, educational, or structural obstacles rather than simple lack of knowledge.

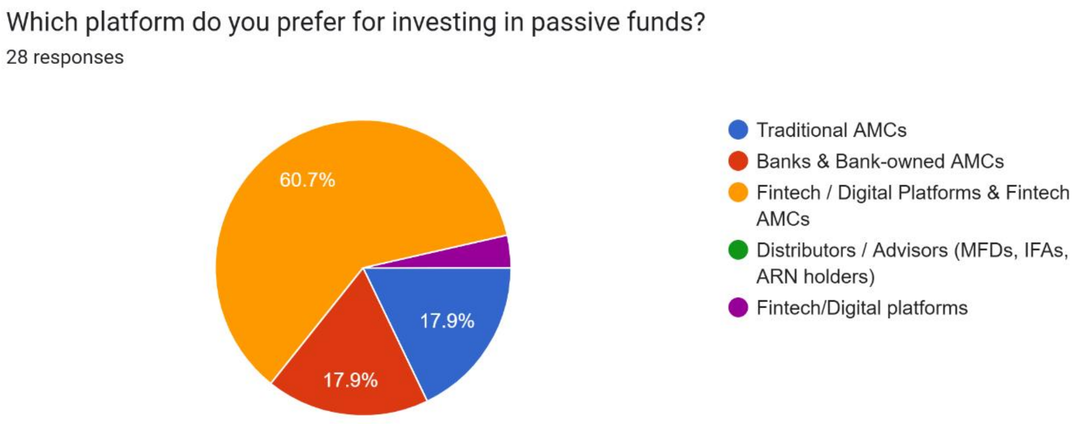

Fig. 10

Among actual investors, 60.7% prefer fintech/digital platforms, with traditional channels (banks and AMCs) each capturing only 17.9%. This overwhelming digital preference validates the hypothesis that digital platforms are key enablers of passive investing adoption. For AMCs, this means partnerships with fintech platforms are strategic necessities rather than optional channels. The dominance of digital platforms also suggests that traditional AMC distribution models may be inadequate for capturing younger passive investors.

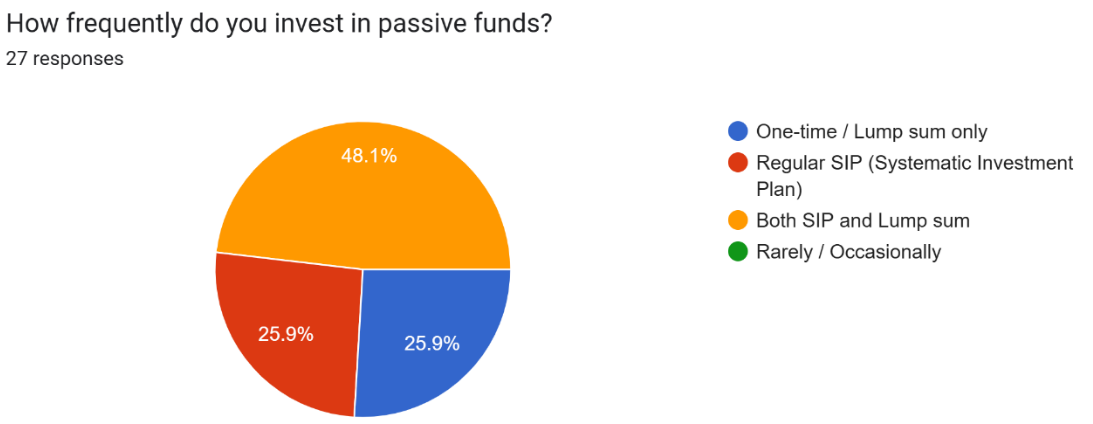

Fig. 11

Investment patterns show 48.1% use both SIP and lumpsum approaches, 25.9% prefer lumpsum only, and 25.9% use regular SIPs. The flexibility in investment modes among passive fund investors indicates mature investing behavior and suggests AMCs should offer multiple investment options. The high adoption of hybrid approaches (SIP + lumpsum) reflects investors' desire to systematically build positions while opportunistically deploying surplus funds during market corrections.

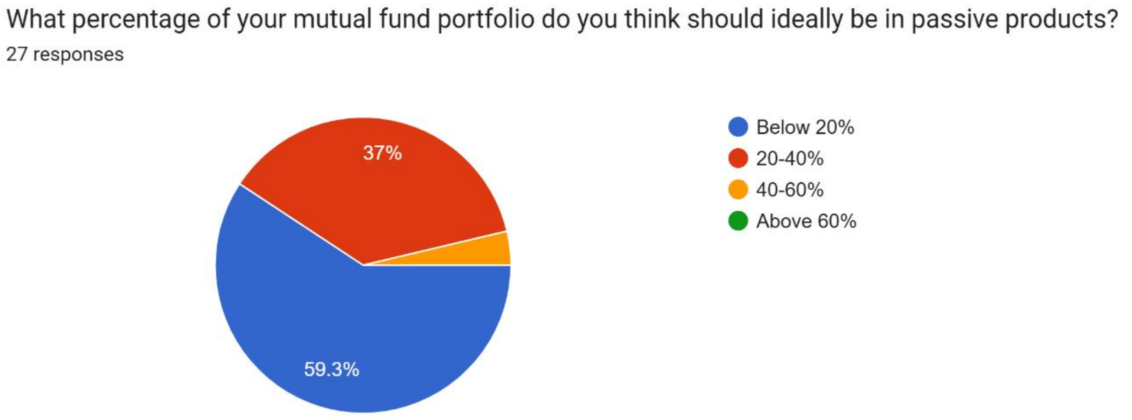

Fig. 12

Among existing investors, 59.3% believe passive products should constitute below 20% of portfolios, 37% suggest 20-40%, and only 3.7% advocate 40-60%. This conservative allocation preference even among adopters suggests passive investing is viewed as a complementary rather than core strategy. The reluctance toward high passive allocation indicates lingering doubts about passive outperformance or a desire to maintain active management exposure. AMCs need to build confidence through performance evidence to shift these allocation norms upward.

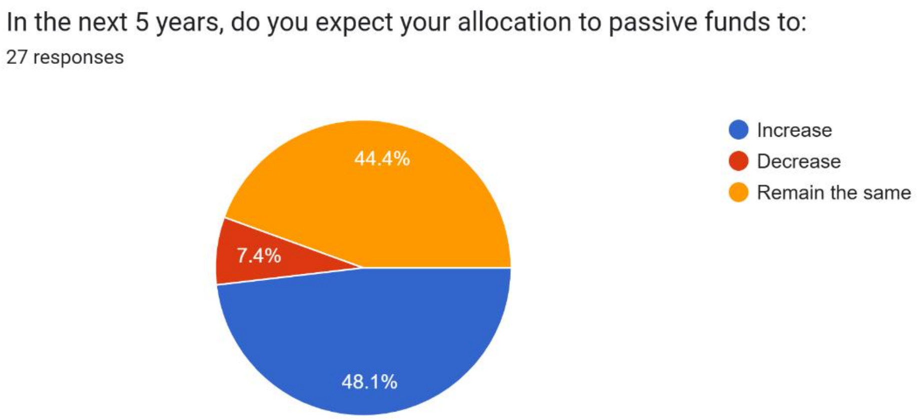

Fig. 13

Nearly half (48.1%) expect to increase passive allocation, 44.4% plan to maintain current levels, and only 7.4% anticipate decreasing. This positive growth sentiment among current investors is encouraging and suggests satisfaction with passive products. The near-equal split between increasers and maintainers indicates existing investors are cautiously optimistic rather than aggressively bullish. This measured optimism could accelerate with better performance communication and product innovation from AMCs.

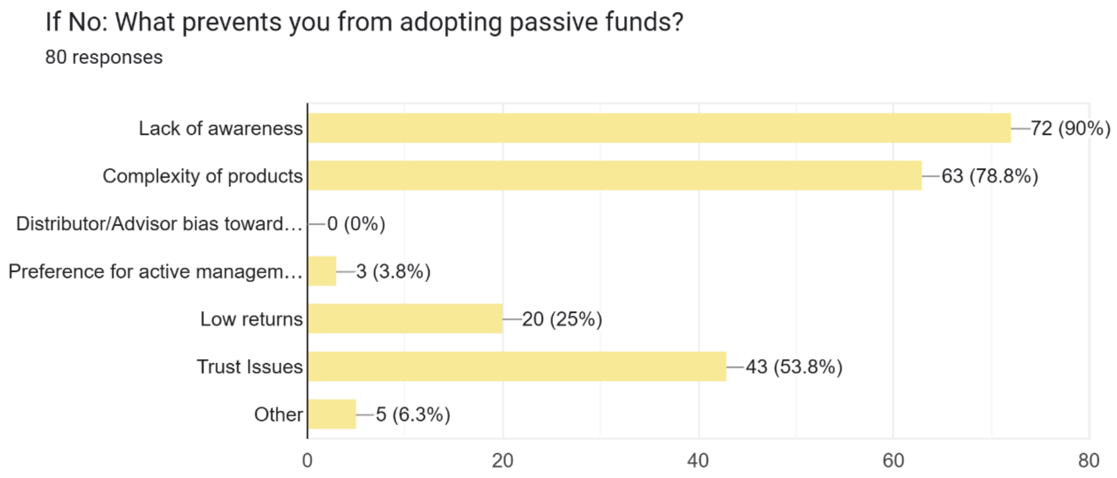

Fig. 14

Among non-investors, lack of awareness leads at 90%, followed by product complexity (78.8%) and trust issues (53.8%). Surprisingly, perceived low returns (25%) and preference for active management (3.8%)

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rank much lower. This data is critically important for AMCs: the problem is fundamentally educational and perceptual rather than product-related or performance-driven. The overwhelming awareness gap contradicts the high product familiarity from Graph 8, suggesting respondents know passive products exist but don't understand their benefits, mechanics, or suitability. Trust issues affecting over half of non-investors indicate credibility building must accompany education efforts.

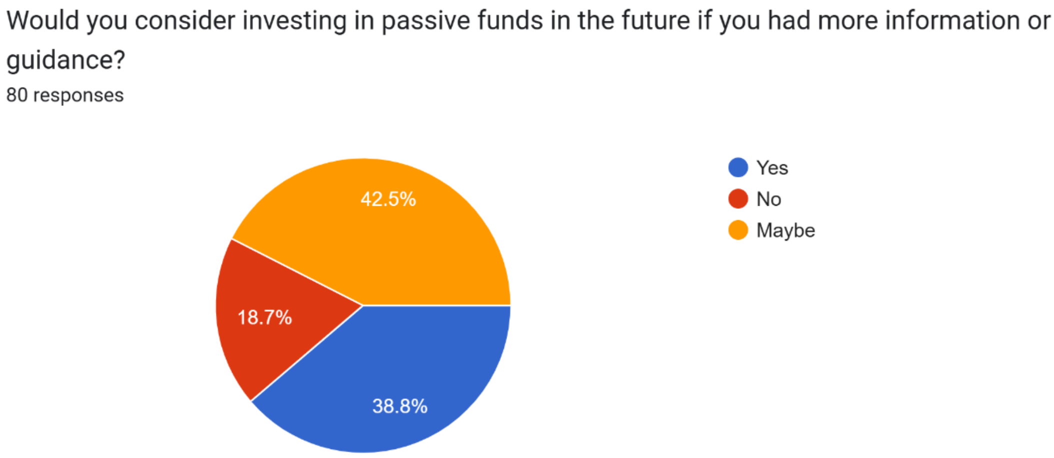

Fig. 15

Among non-investors, 38.8% would definitely invest with better information, 42.5% are uncertain (maybe), and 18.8% remain resistant. This means 81.3% show some openness to adoption, representing a massive addressable market for AMCs willing to invest in investor education. The large "maybe" segment suggests conversion requires not just information but persuasive, trust-building communication. The relatively small hard-no segment (18.8%) indicates passive investing's value proposition resonates conceptually but needs effective articulation.

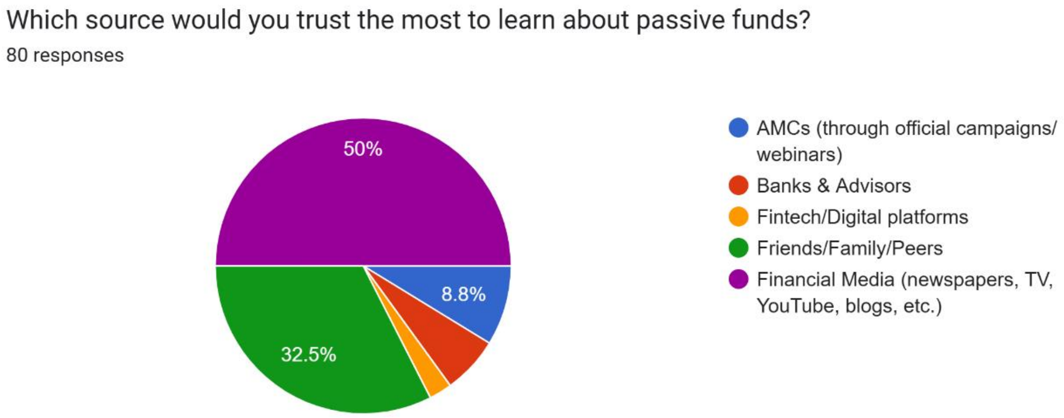

Fig. 16

Financial media (50%) and friends/family/peers (32.5%) are the most trusted sources, while AMCs' own campaigns (8.8%), banks (6.2%), and fintech platforms (2.5%) have minimal trust. This trust deficit toward institutional sources is a critical strategic insight. AMCs cannot simply broadcast educational content through their own channels; they must leverage earned media, influencer partnerships, and peer-driven communication to reach skeptical investors. The strong reliance on informal networks suggests community-based education models and social proof strategies could be highly effective.

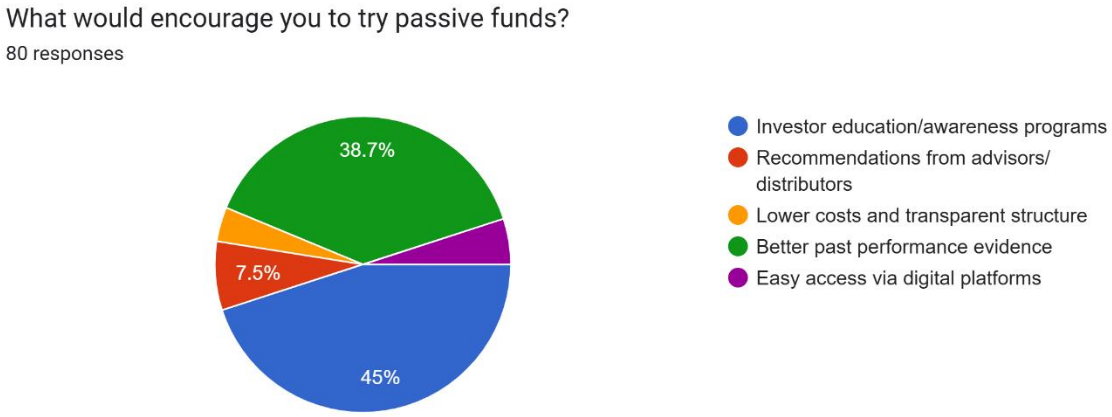

Fig. 17

Investor education programs top the list at 45%, followed by better past performance evidence (38.8%), with advisor recommendations (7.5%), digital access (5%), and lower costs (3.8%) being minor factors. This reinforces that education is the primary conversion lever, not product features or pricing. The significant demand for performance evidence (38.8%) indicates skepticism about passive funds' ability to deliver returns, suggesting AMCs must aggressively communicate long-term outperformance data and comparative analyses versus active funds. The low importance of costs is surprising given passive investing's core value proposition, possibly indicating cost advantages aren't well understood.

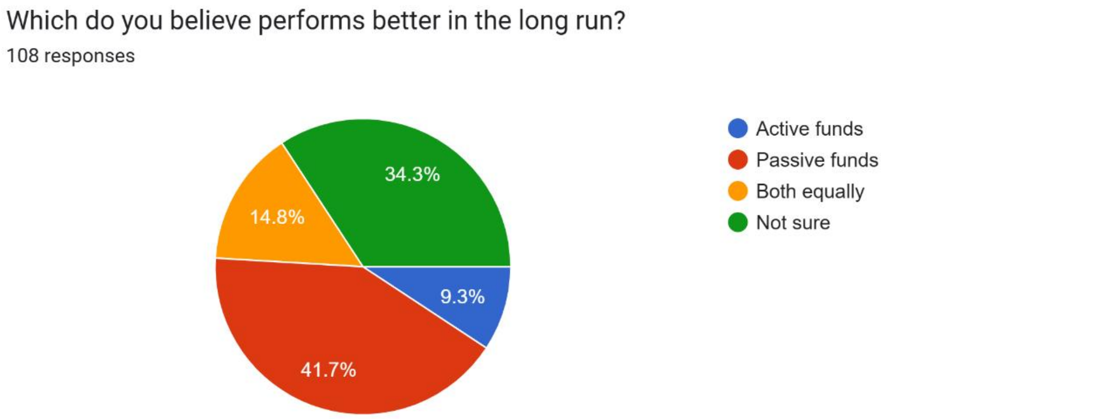

Fig. 18

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Perceptions are divided: 41.7% believe passive funds perform better long-term, 34.3% are unsure, 14.8% think both perform equally, and only 9.3% favor active funds. The fact that plurality favors passive but one-third remain uncertain indicates passive investing's value proposition is gaining traction but hasn't achieved consensus. The low active fund preference (9.3%) is strategically significant, suggesting the battle isn't passive versus active but rather passive versus uncertainty. AMCs must convert the "not sure" segment through evidence-based education.

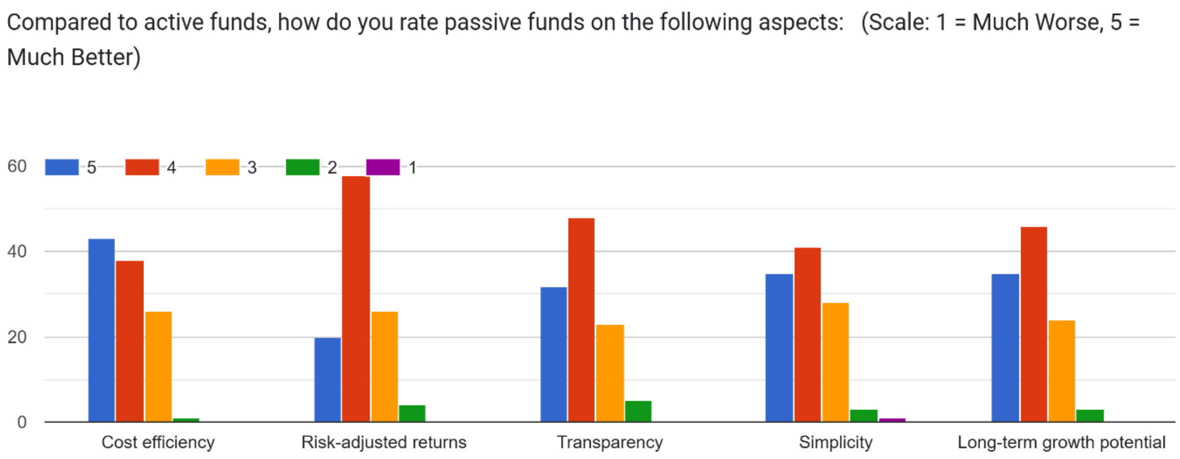

Fig. 19

Survey respondents view passive funds quite favorably compared to active funds across all key aspects. Cost efficiency stands out as their strongest attribute, with most investors recognizing that passive funds are much cheaper to own than active funds. Long-term growth potential and transparency also receive high marks, suggesting passive products are generally seen as reliable for wealth creation and are easy to understand. Simplicity is another positive, with many participants finding passive funds straightforward, though some remain neutral, likely due to confusion around product varieties. Risk-adjusted returns are rated solid but slightly behind the other aspects, reflecting some investor uncertainty about performance under market fluctuations. Overall, around 70–75% consistently rate passive funds as better or much better than active options, with very few negative ratings. These strong perceptions highlight that passive funds are trusted for their low costs, clarity, and user-friendliness, even if there is still some hesitation about their potential to always outperform actively managed strategies.

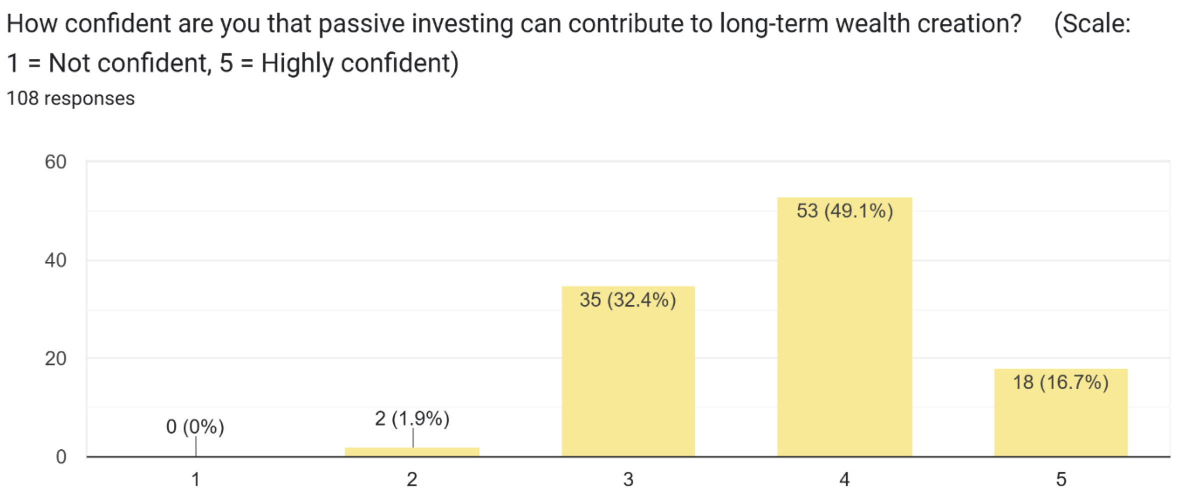

Fig. 20

With an average of 3.81/5 and 65.8% rating 4-5, there's moderately high confidence that passive investing contributes to long-term wealth. However, the substantial 32.4% neutral rating (3) reveals significant ambivalence. This confidence level is lower than the ratings for specific attributes, suggesting aggregate doubt despite recognizing individual benefits. AMCs must holistically demonstrate how cost efficiency, transparency, and growth potential combine to deliver superior wealth outcomes.

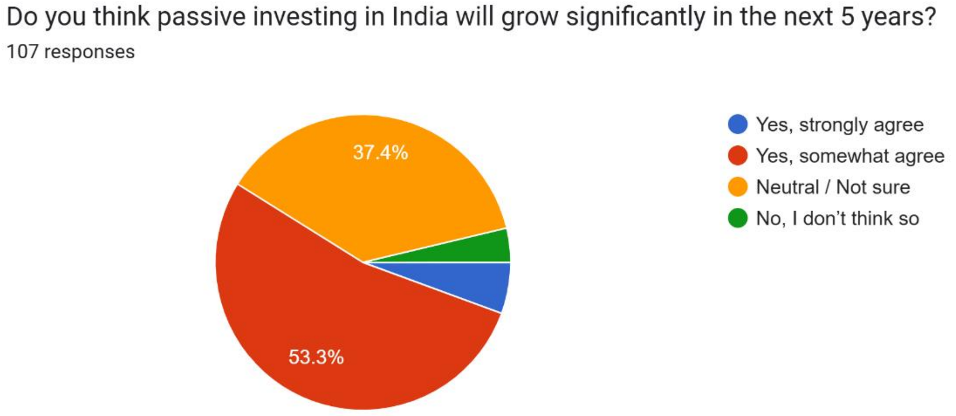

Fig. 21

A combined 58.9% expect growth (5.6% strongly, 53.3% somewhat), while 37.4% are neutral and only 3.7% are pessimistic. This positive but measured growth outlook suggests respondents recognize favorable trends (digital adoption, cost consciousness) but aren't overwhelmingly bullish. The large neutral segment reflects uncertainty about regulatory support, market education progress, and AMC commitment

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to passive products. This data validates your research premise that passive investing is at an inflection point requiring strategic AMC intervention.

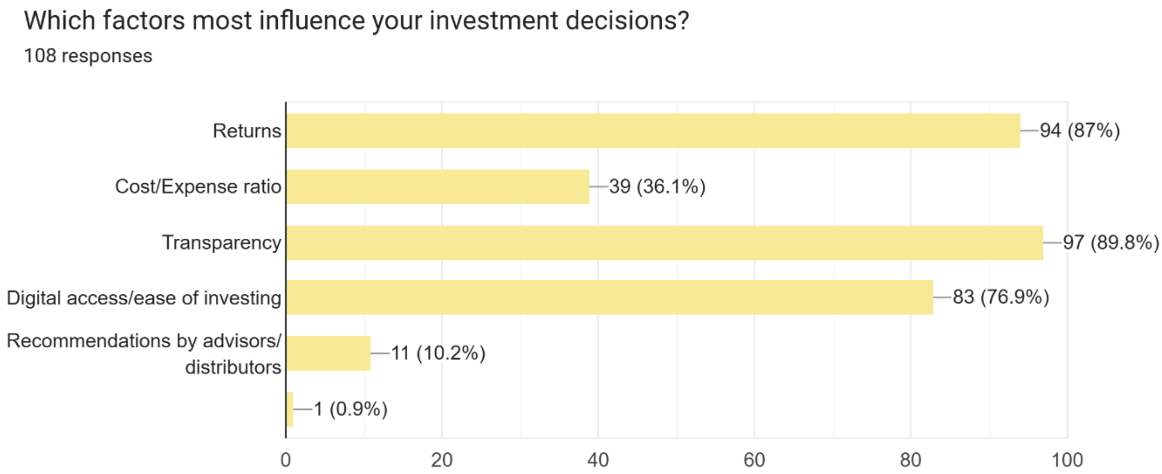

Fig. 22

Transparency (89.8%), returns (87%), and digital access (76.9%) dominate, while cost (36.1%) and advisor recommendations (10.2%) are secondary. This hierarchy reveals performance and transparency are non-negotiable for this investor segment, while the digital accessibility emphasis confirms platform importance. The surprisingly low importance of cost (despite passive funds' cost advantage) suggests investors prioritize value over price alone. AMCs must deliver strong returns and transparent reporting while ensuring seamless digital experiences.

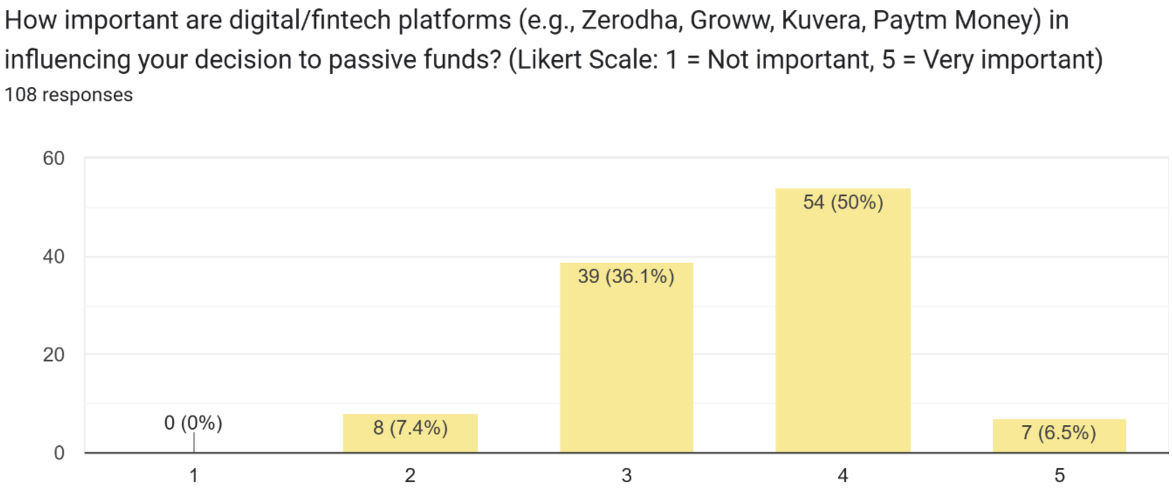

Fig. 23

Averaging 3.56/5 with 56.5% rating 4-5, digital platforms are viewed as moderately to highly important but not universally critical. The 36.1% neutral rating indicates a segment that's platform-agnostic or still comfortable with traditional channels. This moderate score suggests digital platforms are enablers but not sole determinants of adoption. AMCs should pursue omnichannel strategies that emphasize digital convenience while maintaining traditional touchpoints for less tech-savvy segments.

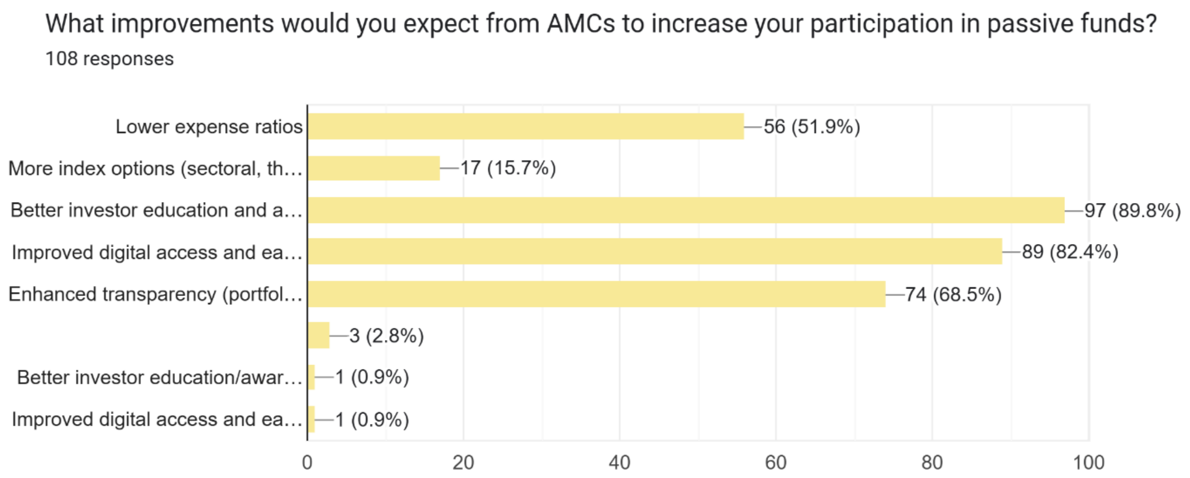

Fig. 24

Investor education (89.8%) and improved digital access (82.4%) are overwhelming priorities, followed by enhanced transparency (68.5%) and lower expenses (51.9%). More index options (15.7%) rank lowest. This clearly articulates investor priorities: AMCs must invest in education infrastructure and digital capabilities before focusing on product innovation or cost reduction. The high transparency expectation (68.5%) despite already-positive transparency ratings suggests investors want more proactive, detailed, and accessible reporting. Product variety is less important than fundamental accessibility and understanding.

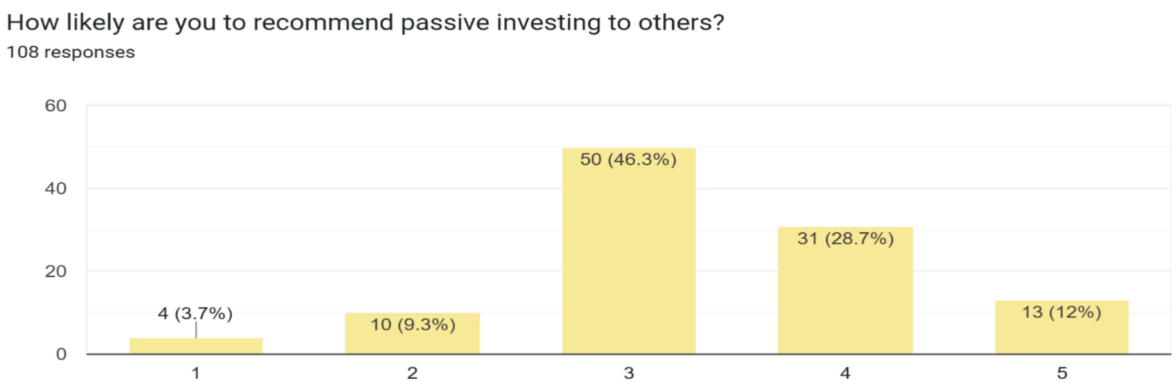

Fig. 25

The distribution shows 46.3% neutral (3), 28.7% positive (4), 12% very positive (5), 9.3% negative (2), and 3.7% very negative (1), creating a lukewarm Net Promoter dynamic. Only 40.7% are likely recommenders versus 13% detractors, yielding a modest Net Promoter Score. This tepid advocacy suggests passive investing hasn't achieved evangelical adoption even among aware investors. The large neutral segment (46.3%) represents passive observers who need compelling experiences to become advocates. AMCs must create "wow moments" through superior performance, education, and user experience to convert neutrals into promoters.

Hypothesis

Hypothesis 1

Objective 1: To evaluate the performance characteristics of passive funds compared to active funds in the Indian market context

H_0: There is no significant relationship between perceived long-term growth potential of passive funds and investor confidence in passive investing for wealth creation.

H_1: There is a significant positive relationship between perceived long-term growth potential of passive funds and investor confidence in passive investing for wealth creation.

Table 1

	X	*Y*
X	1	
Y	0.55104041	1

Result:

- Pearson correlation coefficient (r) = 0.5510
- P-value = 0.000000000643137
- Significance level: $\alpha = 0.05$

Since $p<0.05$, reject the null hypothesis (H_0)

There is a statistically significant moderate positive correlation ($r = 0.5510$, $p < 0.001$) between perceived long-term growth potential and confidence in passive investing for wealth creation. This indicates that investors who rate passive funds higher on long-term growth potential also express greater confidence that passive investing can contribute to long-term wealth creation. This validates Objective 1 of the study, showing alignment between performance perception and wealth creation belief among Indian investors.

Hypothesis 2

Objective 2: To examine the strategic implications of passive investing growth for Asset Management Companies (AMCs) in India

H_0: There is no significant difference in the perceived importance of digital/fintech platforms between investors in passive funds and non-investors.

H_1: There is a significant difference in the perceived importance of digital/fintech platforms between investors in passive funds and non-investors.

Table 2

	How important are digital/fintech platforms in influencing your decision to passive funds?			
Have you personally invested in any passive funds?	**High Importance**	**Low Importance**	**Medium Importance**	**Total**
Non-Investors (No)	43	6	32	81
Investors (Yes)	18	2	7	27
Total	61	8	39	108

Table 3

χ^2 Tests			
	Value	**df**	**p**
χ^2	1.7	2	0.428
N	108		

Result:

- X^2=1.7
- Degrees of freedom (df) = 2
- p-value = 0.428

The p-value of 0.428 is much higher than the conventional significance level of 0.05. This means we fail to reject the null hypothesis (H_0)

There is no statistically significant association between having invested in passive funds and how respondents rate the importance of digital/fintech platforms for their investment decisions. In practical terms, both investors and non-investors view the value of digital/fintech platforms similarly, suggesting digital platform importance alone does not strongly differentiate passive fund adopters from non-adopters in this sample.

Hypothesis 3

Objective 3: To analyze the current state and growth trajectory of passive investing adoption among Indian investors

H_0: There is no significant association between the type of barrier (awareness/complexity vs. other) and willingness to consider future investment in passive funds.

H_1: There is a significant association between the type of barrier (awareness/complexity vs. other) and willingness to consider future investment in passive funds.

Table 4

	What prevents you from adopting passive funds?		
Would you consider investing	**Awareness/Complexity barrier**	**Other barriers**	**Total**

in passive funds in the future?			
Likely to adopt	59	6	65
Unlikely to adopt	15	0	15
Total	74	6	80

Table 5

χ^2 Tests			
	Value	**df**	**p**
χ^2	1.5	1	0.221
χ^2 **continuity correction**	0.462	1	0.497
N	80		

Result:

- $\chi^2 = 1.5$, df = 1, p = 0.221
- χ^2 continuity correction = 0.462, p = 0.497
- Sample size (N) = 80

Based on the Chi-Square Test of Independence performed on the data, we fail to reject the null hypothesis (H_0)

There is an association between barrier type and willingness to invest in passive funds with more information or guidance. The test produced a χ^2 value of 1.5, with 1 degree of freedom and a p-value of 0.221 (continuity correction p = 0.497), both of which are much greater than the significance threshold of 0.05. This result means that the observed differences between "Awareness/Complexity barrier" and "Other barriers" groups in terms of future adoption willingness are not statistically significant. In practical terms, respondents facing awareness or complexity barriers do not differ meaningfully in their willingness to consider passive investing compared to those facing other barriers. The decision is based on the statistical evidence indicating that any apparent difference between groups could be due to chance rather than a true effect in the population.

Limitations of the Study

1. The study used convenience sampling with 108 respondents, mainly young students from metropolitan cities, which limits the generalization of findings to the entire Indian investor population.
2. Data were collected at a single point in time; therefore, the findings may change as market conditions, regulations, and investor preferences evolve.
3. The study is based on self-reported responses, which may be affected by personal bias and may not always reflect actual investment behaviour.
4. The statistical analysis identifies relationships between variables but does not establish cause-and-effect relationships.
5. The study considers passive funds as a single category and does not separately analyse products such as ETFs, Index Funds, Smart Beta Funds, and International Index Funds.

Conclusion

The study concludes that passive investing in India has significant growth potential, but its adoption is limited by low investor awareness, limited financial knowledge, and behavioural barriers. While passive funds offer lower costs, diversification, and competitive long-term returns, many investors still prefer actively managed funds due to familiarity and return expectations. Secondary data indicate strong growth in passive fund assets and increasing regulatory support from SEBI. The findings suggest that investor education, improved digital accessibility, and transparent communication by Asset Management Companies are essential to increase the adoption of passive investing and support the future growth of India's mutual fund industry.

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