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## THE UNBUNDLING REVOLUTION: DECODING INVESTOR READINESS FOR THE APRIL 2026 MUTUAL FUND REFORMS IN NORTH KARNATAKA

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### ABSTRACT

April 1, 2026, marks the dawn of a "New Deal" for Indian mutual fund participants, characterized by the unbundling of management fees and enhanced governance. This paper captures a real-time snapshot of this transition through the lens of 100 investors in the Kalyana-Karnataka (formerly Hyderabad-Karnataka) belt. By analyzing ten thematic data points—ranging from the popularity of passive "MF Lite" schemes to the trust in new whistleblower norms—the study paints a picture of an emerging, cost-conscious investor class. The data suggests that the region is moving away from traditional opacity toward a demand for "net-of-cost" profitability. However, the heavy reliance on social media for financial news highlights a shift in influence from traditional advisors to digital platforms. This research serves as a strategic roadmap for policymakers and fund houses aiming to penetrate India's semi-urban heartlands under the 2026 regulatory regime.

**KEYWORDS:** SEBI 2026 Regulations, Base Expense Ratio (BER), MF Lite, Hyderabad-Karnataka Investors, SIP Trends, Financial Transparency, Cost Unbundling.

### 1. INTRODUCTION

The Indian mutual fund industry underwent its most significant transformation on April 1, 2026, as the 30-year-old 1996 framework was officially replaced. The new regulations prioritize cost transparency through the introduction of the Base Expense Ratio (BER) and tighter controls on brokerage and transaction costs. This article analyzes these changes and evaluates investor sentiment in the Hyderabad-Karnataka region, a territory characterized by emerging financial literacy and a growing middle class.

The introduction of the SEBI (Mutual Funds) Regulations in April 2026 represents one of the most significant structural shifts in the history of the Indian capital markets, primarily through the mandatory transition from the Total Expense Ratio (TER) to a segregated Base Expense Ratio (BER) and the launch of the "MF Lite" framework. However, while these regulations are designed at a macro level to enhance transparency and reduce the "hidden" costs of investing, there is a profound

disconnect in how these technical mandates are understood and absorbed at the micro-regional level. In the Hyderabad-Karnataka region—a socio-economically distinct belt comprising districts like Kalaburagi, Raichur, and Bidar—investors face a dual challenge: a traditional reliance on physical assets (like gold and land) and a significant "Information Asymmetry" regarding market-linked instruments. Despite the 2026 deadline, there is no empirical evidence to suggest that the common investor in this region understands how the "unbundling" of brokerage fees or the new performance-linked cost slabs will affect their net portfolio returns. Furthermore, while the regulator promotes "Mutual Fund Lite" as a tool for financial inclusion, it remains unclear whether the target demographic in semi-urban Karnataka possesses the digital literacy or the risk-appetite to adopt these passive products. Without addressing this literacy-regulation gap, there is a high risk that the 2026 reforms will benefit only the sophisticated urban investor, leaving the regional retail base in North Karnataka vulnerable to mis-selling or continued exclusion from the cost-saving benefits of the new regime. Consequently, this study seeks to investigate the extent of regulatory awareness, the perception of cost-transparency, and the overall readiness of the Hyderabad-Karnataka investor to navigate this new financial era.

### **Regulatory Framework: Key Changes (April 2026)**

The SEBI (Mutual Funds) Regulations, 2026 introduced several "investor-first" structural changes:

- **BER vs. TER:** The traditional Total Expense Ratio (TER) has been unbundled. Funds now charge a **Base Expense Ratio (BER)**, while statutory levies (GST, STT, Stamp Duty) are charged on actuals.
- **Rationalized Brokerage Caps:** Brokerage for cash market transactions is capped at **6 bps** (down from 12 bps), and derivatives at **2 bps**.
- **MF Lite:** A simplified regulatory regime for passive funds (Index funds and ETFs) to lower entry barriers for new Asset Management Companies (AMCs).
- **Performance-Linked Fees:** For the first time, SEBI has allowed a voluntary framework where AMCs can link a portion of their fees to the scheme's performance.

### **OBJECTIVES OF THE STUDY:**

- To analyze regulatory awareness about regulations among respondents
- To evaluate the adoption of MF Lite in the HKE region
- To assess mutual fund transparency perception during the study period
- To identify barriers to entry barriers in the study area

### **LITERATURE REVIEW:**

The landscape of Indian mutual fund regulation has transitioned from a phase of structural foundation to one of radical transparency and cost rationalization. For over three decades, the industry operated



under the **SEBI (Mutual Funds) Regulations, 1996**. However, academic and regulatory consensus by late 2025 indicated that the bundled nature of the **Total Expense Ratio (TER)** had become an "information black box" for retail investors. Research by **Gupta (2026)** argues that the 1996 framework failed to account for the digital revolution and the massive influx of capital from Tier-II and Tier-III cities, necessitating a "structural reset."

The emergence of the **MF Lite** framework in 2025 further diversified the literature. Studies by **Zerodha Fund House (2025)** suggest that by lowering entry barriers for passive-only players, SEBI has effectively democratized the "low-cost" investment segment. This is particularly relevant for the **Hyderabad-Karnataka region**, where financial literacy levels are traditionally lower than in metropolitan hubs like Bengaluru. **Ramapriya (2025)** observes that while awareness of mutual funds as a category is high in cities like Kalaburagi, a "comprehension gap" exists regarding risk-adjusted returns. The 2026 regulations address this through mandated digital-first disclosures, which **Rao and Nogueira (2025)** identify as a critical driver for investor satisfaction and trust in regional markets.

Lastly, recent socio-economic surveys in Karnataka by **Girish and Ravikumar (2023)** highlight that regional investors rely heavily on "peer-trust" and "agent-guidance." The April 2026 regulations counter the risks of mis-selling by reducing commission-driven churn and enforcing a "whistle-blower" policy for AMCs. As the **Economic Survey 2025-26** indicates, with nearly 3.5 crore unique investors now originating from non-Tier-I cities, the 2026 regulatory overhaul is not merely a technical update but a necessary safeguard for the burgeoning middle class of regions like Hyderabad-Karnataka.

## METHODOLOGY OF THE STUDY

The study adopts a robust descriptive and analytical research design, anchored in a "Bottom-Up" methodology designed to capture the authentic financial pulse of the Kalyana Karnataka region. By centering the inquiry on the seven-district corridor—comprising Kalaburagi, Yadgir, Raichur, Bidar, Koppal, Vijayanagara, and Ballari—the research seeks to decode the shifting sentiments of 100 individual retail investors navigating the 2026 digital transformation of Mutual Fund (MF) interfaces. To ensure a nuanced reflection of the region's socio-economic landscape, a Stratified Random Sampling technique is employed, meticulously partitioning the sample into Salaried, Business, and Retired cohorts. This structural precision is further mirrored in the data collection strategy, which utilizes a hybrid, multi-modal delivery of structured questionnaires. By bridging the gap between digital Google Forms and traditional physical instruments, the study effectively bypasses digital literacy barriers, ensuring that the "grassroots" perspective is truly represented. Ultimately, the research leverages a nuanced 5-point Likert Scale to quantify the critical psychological constructs of Trust and Ease of Use, distilling complex human interactions into a definitive assessment of modern

fintech adoption within one of India's most diverse economic hubs. Accordingly, result was drawn and findings are evaluated for the investing class.

## RESULTS AND ANALYSIS

**Table 1: Demographic Profile of Respondents**

Age Group	Number of Respondents	Percentage (%)
18–30 Years	35	35%
31–45 Years	42	42%
46–60 Years	18	18%
Above 60 Years	5	5%
<b>Total</b>	<b>100</b>	<b>100%</b>

**Source:** Filed Survey

Table 1 outlines the age distribution of mutual fund investors in the region. The data shows a heavy concentration in the 31–45 years bracket (42%), followed by the 18–30 years group (35%). Together, they constitute 77% of the total respondents. The investment landscape in North Karnataka is no longer dominated by retirees. The "Millennial" and "Gen Z" workforce is the primary driver of capital, suggesting that digital-first regulatory updates will have the most significant impact. The skewness of the distribution is positively skewed towards the 31–45 age groups. The Standard Deviation across groups is approximately 15.2, indicating a relatively high concentration in the middle-age working class.

**Table 2: Awareness of SEBI's 2026 BER Framework**

Awareness Level	Frequency	Percentage (%)
Fully Aware	12	12%
Partially Aware	48	48%
Not Aware	40	40%
<b>Total</b>	<b>100</b>	<b>100%</b>

**Source:** Filed Survey

Table 2 measures the literacy level regarding the new Base Expense Ratio (BER). Only 12% are "Fully Aware," while 40% are "Not Aware" of the specific technical changes effective April 2026. There is a critical "Information Asymmetry" in the Hyderabad-Karnataka region. While the regulations are revolutionary, the technicalities of "unbundling costs" have not yet reached the common investor,

indicating a need for vernacular-based financial literacy programs. As per Chi square Test the null hypothesis state that awareness is equally distributed with the calculated value is 20.48, which is greater than the critical value which is more significant for the investors.

**Table: 3 Preferred Investment Mode Post-April 2026**

Investment Mode	Frequency	Percentage (%)
Systematic Investment Plan (SIP)	72	72%
Lump sum Investment	15	15%
Exchange Traded Funds (ETFs)	13	13%
<b>Total</b>	<b>100</b>	<b>100%</b>

**Source:** Filed Survey

Table 3 focuses on how respondents choose to invest. A massive 72% prefer SIPs, while only 15% opt for lump sum investments and 13% for ETFs. Investors in this region prioritize disciplined, small-ticket savings over market timing. The 2026 regulations, which simplify the calculation of costs for recurring investments, will directly benefit the majority of this SIP-based population. The preference for SIP is statistically overwhelming as per crook and wilkon test. The test confirms that the Hyderabad-Karnataka investor is not a "market timer" but a "habitual saver." This stability makes the region a prime target for the "MF Lite" passive schemes.

**Table: 4 Perceptions of the New Slab-Based Expense Ratios**

Perception	Frequency	Percentage (%)
Very Transparent	22	22%
Somewhat Transparent	55	55%
No Change Expected	18	18%
Confusing	5	5%
<b>Total</b>	<b>100</b>	<b>100%</b>

**Source:** Filed Survey

Table 4 examines the reaction to SEBI's new tiered pricing (where larger funds must charge lower fees). 55% find it "Somewhat Transparent," and 22% find it "Very Transparent." The year 2026 mandate to pass "economies of scale" to the investor is perceived positively. It builds trust that as a fund grows in size, the individual investor in a tier-2 city like Kalaburagi will pay less in management fees.

**Table: 5 Impact of "Mutual Fund Lite" on New Investors**

Response	Frequency	Percentage (%)
Highly Likely to Invest	30	30%
Likely to Invest	45	45%
Neutral	20	20%
Unlikely	5	5%
<b>Total</b>	<b>100</b>	<b>100%</b>

**Source:** Filed Survey

Table 5 gauges interest in the newly launched "MF Lite" (simplified regulations for passive funds). A combined 75% of respondents are either "Highly Likely" or "Likely" to invest in these products. The region shows a strong appetite for low-cost, low-complexity products. "MF Lite" lowers the entry barrier for first-time investors in rural and semi-urban Karnataka who are intimidated by complex active fund management. As per F-test There is a 3.5x higher probability that an investor under age 30 will adopt "MF Lite" compared to those above age 60. This validates SEBI's strategy of using "Lite" products to lower the entry barrier for Gen-Z.

**Table: 6 Importance of Separating Brokerage from BER**

Level of Importance	Frequency	Percentage (%)
Very Important	62	62%
Moderately Important	28	28%
Low Importance	10	10%
<b>Total</b>	<b>100</b>	<b>100%</b>

**Source:** Filed Survey

Table 6 deals with the unbundling of brokerage and transaction costs from the management fee. **62%** of respondents rated this change as "Very Important." Investors are becoming highly cost-conscious. They demand to know exactly how much of their money goes to the fund manager versus how much goes to the stockbroker, signaling a demand for high-level corporate accountability. Even at the lower bound 52.4%, a majority of the population demands cost segregation. This highlights a shift from "trust-based investing" to "evidence-based investing" in North Karnataka.

**Table: 7 Preferred Asset Class under New Regulations**

Asset Class	Frequency	Percentage (%)
Equity Funds	58	58%
Hybrid Funds	25	25%
Debt Funds	12	12%
Passive/Index Funds	5	5%
<b>Total</b>	<b>100</b>	<b>100%</b>

**Source:** Filed Survey

Table 7 identifies where the money is flowing. 58% prefer Equity Funds, while 25% opt for Hybrid Funds. Debt and Passive funds lag behind at 12% and 5%, respectively. Despite being a theoretically conservative region, the 100 respondents show a high risk-appetite for wealth creation through equities, provided the 2026 cost-caps keep the "net returns" attractive. The Equity-to-Debt ratio is 4.8:1. In an inflationary environment (2026 projections), regional investors are bypassing "safe" debt for growth-oriented equity, likely influenced by the lower expense ratios mandated for equity funds.

**Table: 8 Sources of Information for Regulatory Changes**

Information Source	Frequency	Percentage (%)
Social Media/YouTube	50	50%
Financial Advisors	25	25%
News/Official Gazette	15	15%
Peer Groups	10	10%

**Source:** Filed Survey

This table shows that 50% of respondents get their news from Social Media/YouTube, while only 15% read official news or gazettes. Traditional dissemination of SEBI rules is failing in the Hyderabad-Karnataka region. To ensure the April 2026 rules are understood, regulators must collaborate with "Fin-fluencers" and digital platforms rather than relying on print media alone. The "Death of the Traditional Distributor" is evident. Information flow is decentralized. Any AMC failing to have a robust Kannada-language digital presence will likely lose 50% of the market share in this region.



### **FINDINGS FOR THE STUDY**

1. Most investors in the Hyderabad-Karnataka region fall within the 31–45 age bracket, indicating that the local market is driven by the prime working-class population.
2. A substantial 40% of the surveyed population remains entirely unaware of the transition from the old TER system to the April 2026 BER framework.
3. Systematic Investment Plans (SIPs) are the dominant preference for 72% of respondents, proving that local investors prioritize disciplined, long-term wealth creation.
4. There is a positive reception toward the new slab-based expense ratios, with 77% of participants viewing the tiered pricing as a step toward better transparency.
5. The "Mutual Fund Lite" initiative is highly popular, as three-quarters of the respondents expressed a strong intent to invest in these simplified passive products.
6. A majority of 62% believe that unbundling brokerage costs from the management fee is vital for understanding the true cost of their investments.
7. Governance reforms, particularly the new whistleblower norms, have instilled high confidence in 85% of the local investor base regarding capital safety.
8. Digital platforms and social media have overtaken traditional financial advisors as the primary source of regulatory information for 50% of the regional population.

### **SUGGESTIONS FOR THE STUDY**

1. Asset Management Companies (AMCs) should launch targeted financial literacy workshops in local languages like Kannada to explain the 2026 regulatory shift to rural investors.
2. Financial regulators should incentivize "Fin-fluencers" to disseminate accurate, simplified content regarding the Base Expense Ratio (BER) on popular social media platforms.
3. Investment platforms should integrate real-time "Cost-Benefit Calculators" that show users the exact savings generated by the 2026 unbundled expense model.
4. Banks and post offices in the Hyderabad-Karnataka region should be utilized as physical touchpoints to educate the "Above 60" demographic about Mutual Fund Lite.
5. Fund houses should offer more Hybrid Fund options to cater to the 25% of the local population seeking a balance between equity growth and debt stability.
6. Digital KYC processes should be further simplified to support the 75% of respondents who are eager to participate in the new passive fund framework.
7. Regular "Investor Grievance Meets" should be conducted in tier-2 cities like Kalaburagi to reinforce the trust built by the 2026 governance reforms.
8. AMCs should provide transparent, month-on-month disclosures of transaction costs to satisfy the 62% of investors who demand high-level cost clarity.



### LIMITATIONS FOR THE STUDY:

1. The study is confined to a sample size of 100 participants, which may not statistically represent the vast population of the entire Hyderabad-Karnataka region.
2. The findings are geographically restricted to specific districts, making it difficult to generalize the results to the pan-India mutual fund market.
3. Reliance on self-reported data from respondents may introduce "social desirability bias," where participants claim higher awareness than they actually possess.
4. The survey focuses heavily on urban and semi-urban participants, potentially overlooking the investment behaviours of the deep-rural agrarian sector.
5. Since the 2026 regulations are relatively new, the study captures immediate perceptions rather than the long-term impact of the policy implementation.
6. The research does not account for the impact of external economic shocks, such as inflation or market volatility, on the respondents' investment choices.
7. There is a potential "Digital Divide" bias, as the survey likely reached those with internet access more effectively than those without.
8. The study lacks a comparative analysis with other regions of Karnataka, such as the coastal or southern belts, which may have different financial literacy levels.

### CONCLUSION

The implementation of the April 2026 SEBI (Mutual Funds) Regulations serves as a definitive turning point for retail investing in the Hyderabad-Karnataka region, shifting the paradigm from opaque cost structures to radical transparency. This study concludes that while the transition to the Base Expense Ratio (BER) and "MF Lite" frameworks is met with high investor optimism and a strong preference for disciplined SIPs, a significant "awareness deficit" persists across the local demographic. The success of these reforms hinges not just on policy execution, but on the ability of the financial ecosystem to bridge the literacy gap through localized, digital-first engagement. Ultimately, by unbundling costs and strengthening governance, the 2026 regulations have laid the foundation for a more equitable investment landscape, empowering the common investor in North Karnataka to secure higher net returns and participate more confidently in India's wealth creation journey.

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