Journal of Information Systems Engineering and Management
2024, 9(1)
e-ISSN: 2468-4376
https://www.jisem-journal.com/

Research Article

Determinants of Systematic Investment Plan (SIP) Continuance Intention: The Roles of Financial Literacy, Behavioral Biases, and Investor Trust

[1]Sujay V, [2]Dr. Mamatha J

[1]Research Scholar, Department of MBA

SJB Institute of Technology, VTU, Karnataka, India

[2]Professor and Head, Department of MBA

SJB Institute of Technology, VTU, Karnataka, India

ARTICLE INFO

Received: 03 Feb 2024

Revised: 19 March 2024

Accepted: 28 March 2024

ABSTRACT

Investment platforms such as SIPs have become popular choices for retail investors and are now being examined as part of financial research. However, there are still numerous issues around their continued participation by retail investors. Issues such as irregular contributions and potential for discontinuation raise the question of how psychological-and cognitive-related issues impact the decision-making of investors concerning the future use of SIPs, particularly as it pertains to the level of financial literacy and behavioral biases. In addition to this, the study will also establish how investor trust serves as a mediator between financial literacy, behavioral biases, and investor intention to continue to use SIPs. Using a quantitative approach, a total of 268 mutual fund investors were surveyed for this research study to assess the construct validity, internal consistency, and structural relationships of the variables using PLS-SEM. The results reveal that there is a positive correlation between financial literacy and investor intentions to continue using SIPs, while there is a negative correlation between behavioral biases and investor intentions to continue using SIPs. Moreover, it was determined that trust acts as a mediator between financial literacy and investor intentions to continue using SIPs. Therefore, building investor confidence with investing platforms like SIPs is critical for attracting and retaining investors.

Keywords: SIP Continuance, Financial Literacy, Behavioral Biases, Investor Trust, PLS-SEM

Introduction

Investors have always been promoted to use SIPs for building wealth over time. Even though more than ever, more people are investing through this method, many investors do not stick with their SIPs because of volatility in the market, emotional reactions, or cognitive errors in making investment decisions. While traditional finance operates on the assumption that individuals base their economic decisions on factual data; Introduction to Behavioral Finance – a branch of economics examines how psychology influences how individuals invest. Growing your financial knowledge enables you to make better financial decisions than you would without growing your financial knowledge, however, developing your financial literacy will not decrease the extent to which you'll be affected by various behavioral biases, such as loss aversion and overconfidence, that may inhibit your ability to

consistently invest. Trust is a major factor in helping individuals remain committed to long- term investing.

Research Objectives

- To investigate how financial literacy impacts someone's intention to continue a SIP.
- To explore how behavioral biases affect an individual's intention to continue a SIP.
- To evaluate the mediating influence that investor trust has on SIP continuance intentions.

Literature Review

Prior research indicates that financial literacy has a significant impact on an individual's ability to make and sustain investments. According to Lusardi and Mitchell (2014), people with a strong level of financial literacy are less likely to abort long-term investments, and they exhibit greater financial planning ability than people without any level of financial literacy. Mishra (2018) found a strong positive correlation between levels of financial literacy and participation in stock markets; as a result, individuals with higher levels of financial literacy tend to have higher levels of risk tolerance. Similarly, Shaikh and Khan found that informed investors tend to have lower rates of abandoning systematic investment plans in times of market downturns.

Behavioural finance has helped researchers gain insight into why people may take actions that aren't solely based on logical thought. One example is Prospect Theory, created by Kahneman and Tversky (1979), explains that loss aversion plays a role in making decisions with respect to money. An additional way of examining how people make financial decisions is using behavioural biases defined by Shefrin (2000) to include things such as overconfidence and mental accounting, and how these biases can shape your judgement around investment decisions. Rao (2018) also points out that herd behaviour influences decisions to enrol or disengage from SIP's during periods of volatility; while Sharma and Iyer (2022) state that many investors rely on using past performance/returns to create biased continuations of their investment behaviour.

Investment activity can continue to be impacted by several aspects such as risk perception and the uncertainty of the investment itself. For example, Grable, Rabbani and Heo (2024) state that an investor's evaluation of their finances depends on their understanding of their financial behavioural tendencies about their risk appetite and risk tolerance in relation to investment. Walters et al. (2023) also provide evidence that investors' responses to variations in their levels of knowledge regarding epistemic and aleatory uncertainty can result in changes in investment decision-making and thus impact the stability of an investment decision.

The integrity of financial relationships is maintained through trust (Kapoor & Mehta, 2020). An increase in transparency of digital financial platforms has shown to increase the level of trust an investor will have in an investment (Jain & Bansal, 2021). An emotional intelligence of increased recognition of one's own feelings will help an investor mitigate impulsive or irrational buying behaviour thus indirectly influencing long-term quality of relationships based on trust in a given investment.

Although earlier studies investigated each of these variables individually, little research has been done on how they all interact and affect an individual's willingness to make additional SIP contributions using a structural framework. This will be the first empirical study examining the combined effects of financial literacy, behavioural biases, and trust on intentions to continue contributing to SIPs.

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1. Hypotheses Development

H1: A higher level of financial literacy boosts the intention to continue with SIPs (Systematic Investment Plans).

H2: Behavioral biases negatively impact the intention to maintain SIPs. H3: Increased financial literacy enhances trust among investors.

H4: Trust from investors leads to a greater likelihood of continuing with SIPs.

H5: Investor trust plays a mediating role between financial literacy and the intention to continue with SIPs.

Research Methodology

This research study includes a cross-sectional design and uses quantitative methods. Data for this study were collected from 268 retail investors who had active SIP investments. The retail investors were identified using purposive sampling. Participants' responses were collected using a structured questionnaire containing items measured using a five-point Likert scale. Data was analyzed using partial least squares structural equation modeling (PLS-SEM) to determine the reliability of measures, validity of constructs and structural relations, including mediation effects. Significance tests were performed using bootstrapping to assess the statistical significance of the path coefficients.

Data Analysis & Results

1.1 Respondent Profile (N = 268)

Variable	Category	Percentage
Gender	Male / Female	61% / 39%
Age	26–35 years dominant	43%
Education	Postgraduates	57%
Experience	1–5 years	48%

According to demographic breakdown of respondents: Male respondents responded at a slightly higher rate than female respondents with 61% and 38%, respectively; the largest age group of respondents (43%) falls within the 26- to 35-year-old range. Young working professionals appear to be actively investing in SIPs. In addition, the respondents' responses indicate that over half (57%) of them hold at least a Post Graduate degree; therefore, the average level of education is very high among most investors. Finally, approximately 48% of respondents have been investing in mutual funds for between one and five years, indicating investors have some experience.

1.2 Measurement Model Evaluation

All reflective measures had satisfactory external loadings (>0.70), confirming that the indicators are reliably good indicators.

Construct	Loading Range
Financial Literacy	0.812 – 0.901
Behavioural Biases	0.744 – 0.883
Investor Trust	0.854 – 0.918
SIP Continuance	0.876 – 0.924

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Internal Consistency & Convergent Validity

Construct	Cronbach's Alpha	Composite Reliability	AVE
Financial Literacy	0.903	0.928	0.721
Behavioural Biases	0.887	0.918	0.689
Investor Trust	0.912	0.938	0.791
SIP Continuance	0.921	0.944	0.808

1.3 Structural Model Results

Hypothesis	Path	β	t-value	Decision
H1	Financial Literacy → SIP Continuance	0.382	6.214	Supported
H2	Behavioural Biases → SIP Continuance	-0.297	4.983	Supported
H3	Financial Literacy → Investor Trust	0.544	9.103	Supported
H4	Investor Trust → SIP Continuance	0.401	6.887	Supported

Bootstrapped outcomes indicate that there was a positive relationship between financial utility and the intention of SIP continuance, as well as a negative effect caused by behavioral bias on the intention of SIP continuance. Lastly, it was found that investor trust is an important determinant of SIP continuance intentions.

1.4 Mediation Analysis

By implementing the bootstrapping method, our analysis of these relationships shows evidence of an indirect effect, which is significant at an alpha level of 0.05 (Mean indirect effect = 0.218). In addition, there is also direct and indirect evidence to support a partial mediation effect. Therefore, we conclude that Financial Literacy is a partial mediator in the relationship between Investor Trust and Continuance Intentions. Our findings whereby Financial Literacy increases Investor Trust thereby suggesting that Financial Literacy has a direct impact on an individual's Continuance Intention. In addition, this relationship indicates that Trust is a vital psychological component to facilitate the transfer of knowledge into long-term investment behaviors.

Discussion of Findings

Behavioral finance theory has been supported by Evidence Showing that financial literacy has an impact on behaving in a disciplined manner regarding investing, while behavioral bias shows an opposite impact for those continuing to invest in their SIPS. Financial institutions have created trust between themselves and investors that will lead them to believe they will contribute consistently to their SIPS even if there is a perceived lower risk of investing because of economic uncertainty. The findings of this study provide support for Prospect Theory & assist existing literature regarding the

intention to continue contributing to SIPs.

Managerial Implications

Financial planners and mutual fund companies must:

- Promote personal finance knowledge among potential clients so they can understand both the language of personal finance as well as any contracts or agreements related to investment products and services provided by mutual fund companies and/or financial planners.
- Create "behavioral nudges" that help counteract many of the most common biases associated with investing (examples include the biases associated with loss avoidance and the herding behavior phenomenon).
- Increase transparency through improved communication; provide more reliable services that build long-term trust with investors.
- Utilizing digital dashboards as well as regularly scheduled updates regarding the performance of investments will help alleviate the emotional effects of market movements on the decision-making process for investors.

Limitations & Future Research

The scope of cross-sectional designs limits both causal inferences and dynamic assessments of behavior. However, there are numerous opportunities for future research to be done, including:

- Using longitudinal designs which examine the evolution of participants' actual continuation behaviors over time.
- Including further psychological variables (e.g., risk tolerance, emotional intelligence).
- Improving the external validity of the study by sampling from participants from multiple states or countries.
- Comparing the use of different investment vehicles (e.g., SIP vs. lumpsum)

Conclusion

According to the results from the current research, the intent to continue one's systematic investment plan is influenced by factors including an individual's financial literacy, inherent behavioral biases and overall investor trust. The current research also adds to the body of literature on behavioral finance and investment persistence by developing a structural framework that integrates cognitive, behavioral and relational aspects of investors' decision-making processes, and thereby providing recommendations for practical strategies to financial institutions.

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