

A Study on the Factors Influencing SIP Discontinuation Among First-Time Mutual Fund Investors

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Abstract- This study investigates the behavioral, economic, and technological determinants of Systematic Investment Plan (SIP) discontinuation among first-time mutual fund investors in India. Using a cross-sectional sample of 152 investors, the research reveals that while SIPs are engineered for long-term wealth creation, a significant 52.6% of participants have either paused or permanently discontinued their investments. Findings highlight that loss aversion, personal financial emergencies, and the absence of human advisory support on digital platforms are primary catalysts for attrition. Statistical testing establishes a clear inverse relationship between financial literacy and discontinuation propensity, with beginners exiting at nearly double the rate of advanced investors. The study concludes that enhancing financial resilience through emergency funds and integrating behavioral nudges into digital platforms are critical for improving long-term investor retention.

Key Words: Mutual Funds, SIP Discontinuation, Behavioral Finance, Loss Aversion, Financial Literacy, First-time Investors.

1. INTRODUCTION

The mutual fund industry in India has undergone a seismic shift, evolving from a state-sponsored monopoly to a democratized financial ecosystem. Central to this transformation is the Systematic Investment Plan (SIP), which facilitates disciplined wealth accumulation by automating monthly investments. Despite record registration growth, the industry faces a systemic challenge: high rates of premature SIP discontinuation among first-time investors.

Current market data indicates a "SIP Stoppage Ratio" frequently fluctuating between 74% and 85%, suggesting that for every 100 new SIPs registered, a large proportion are concurrently paused or cancelled. This study seeks to isolate the behavioral, technological, and economic triggers—such as loss aversion and digital advisory gaps—that precipitate this premature cessation.

2. RESEARCH DESIGN AND LITERATURE REVIEW

2.1 Review of Literature

Recent studies indicate that "loss aversion" and heightened risk perception serve as primary deterrents to investment continuity. Radha and Srividya (2026) established that the psychological distress of notional losses often outweighs long-term gain anticipation for novices. Furthermore, institutional data from AMFI (2025–2026) highlights that retail investors frequently anchor decisions to short-term market noise, leading to disproportionate panic-selling.

2.2 Methodology

The research utilizes a mixed-method approach prioritizing empirical primary data. A structured questionnaire was administered to a purposive sample of 152 first-time investors. Data was analyzed using IBM SPSS Statistics 26, employing Chi-square analysis and regression models to test hypotheses related to financial literacy and behavioral influences.

3. THEORETICAL PERSPECTIVE

3.1 Behavioral Framework

The study is anchored in Prospect Theory, which suggests that investors evaluate outcomes relative to a reference point rather than in absolute terms. Loss aversion causes first-time investors to terminate SIPs during market dips to prevent further perceived psychological pain, effectively locking in temporary losses.

3.2 Risk Dimensions and Digital Friction

Beyond market risk, investors face interest rate, credit, and liquidity risks. For digital-native investors, the ease of pausing an SIP via a single swipe on a smartphone—without human-centric advisory reassurance—paradoxically facilitates impulsive financial abandonment.

4. ANALYSIS AND INTERPRETATIONS

4.1 Demographic Insights

- **Age:** 79% of respondents are aged 18-35, representing the younger workforce.

- **Education:** Over 65% possess at least a post-graduate qualification.
- **Occupation:** Salaried professionals constitute 53.9% of the sample.

4.2 Discontinuation Behavior

Analysis of the central dependent variable reveals that 27.6% of respondents have permanently discontinued their SIPs, while 25.0% have paused them temporarily. Only 47.4% maintained their investment without interruption.

Table -1: Impact Factors on SIP Discontinuation

Factor Description	Mean Score (1-5)	Interpretation
Unexpected personal financial emergency	4.38	Very High Influence
Treating SIP money as "extra cash"	4.22	Very High Influence
Emotional stress from "red numbers"	4.18	High Influence
Fear of losing principal (Loss Aversion)	4.15	High Influence
Impact of rising inflation/living expenses	4.08	High Influence
Confusion over hidden charges/fees	4.05	High Influence

4.3 Hypothesis Testing

- **Hypothesis 1:** Results confirm a significant inverse relationship between financial literacy and discontinuation. Beginners discontinued at a rate of 65% compared to 35% for advanced investors ($\chi^2 = 18.6, p < 0.01$).
- **Hypothesis 2:** Platform type significantly influences retention. Aggregator app users showed a 62% discontinuation rate, whereas users of Independent Financial Advisors (IFAs) exhibited the lowest attrition at 33%.

3. CONCLUSIONS

The study concludes that SIP discontinuation is a multifaceted phenomenon driven primarily by personal financial emergencies and deep-seated behavioral biases. The high attrition rate among digital platform users suggests that frictionless execution must be balanced with human-centric advisory or automated behavioral nudges to manage investor anxiety. Building financial resilience through mandatory emergency fund education is essential for ensuring that first-time investors survive their first market cycle.

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