



Influence of Risk Perception and Financial Literacy on Investment Decision Making in Systematic Investment Plans (Sips) Among Retail Investors

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Abstract

This study examines how retail investors' risk perception and financial literacy shape investment decision making in Systematic Investment Plans (SIPs). SIPs are one of the most widely used mutual fund investment approaches among small investors because they promote disciplined investing and rupee-cost averaging. However, participation and continuity in SIPs are often influenced by investors' understanding of financial products and their tolerance for uncertainty. The study proposes a quantitative model in which financial literacy and risk perception independently influence SIP decision making and jointly affect long-term investment commitment. Primary data may be collected from retail investors through a structured questionnaire and analyzed using correlation and regression techniques. The expected findings suggest that higher financial literacy improves rational investment decisions, while elevated risk perception may reduce investment confidence unless moderated by investor knowledge. The paper contributes to behavioral finance literature by explaining how cognitive and psychological factors influence SIP adoption among retail investors.

1. Introduction

Retail participation in mutual funds has increased significantly in recent years, particularly through Systematic Investment Plans (SIPs). SIPs allow investors to invest a fixed amount regularly into mutual funds and are considered suitable for wealth creation over time. Despite their popularity, retail investors often differ in their willingness to invest due to differences in financial knowledge and perceived market risk. Financial literacy enables investors to understand investment products, expected returns, inflation, diversification, and compounding. Risk perception reflects how individuals interpret uncertainty and possible losses in financial markets. Understanding the interaction between these variables is important for financial institutions and policymakers seeking to improve investor participation.



2. Literature Review

Previous studies have shown that investor perception strongly influences SIP preference and investment continuity. Sankar et al. (2020) found that awareness and trust affect investor attitudes toward SIPs. Gupta and Bansal (2024) reported a positive association between financial literacy and investment behavior among salaried professionals. Vashisth et al. (2025) highlighted that investors with higher perceived market risk tend to choose safer financial products. Existing studies generally examine financial literacy or risk perception separately; however, fewer studies evaluate their combined influence on SIP decision making among retail investors, creating a research gap addressed by this study.

3. Research Objectives

1. To examine the effect of financial literacy on SIP investment decisions among retail investors.
2. To assess the influence of risk perception on SIP investment decisions.
3. To analyze the relationship between financial literacy and risk perception.
4. To determine whether financial literacy moderates the effect of risk perception on investment decisions.

4. Hypotheses

H1: Financial literacy has a significant positive influence on SIP investment decision making.

H2: Risk perception has a significant negative influence on SIP investment decision making.

H3: Financial literacy significantly moderates the relationship between risk perception and SIP investment decisions.

5. Research Methodology

The study may adopt a descriptive and explanatory research design. Primary data can be collected using a structured questionnaire from retail investors who currently invest in mutual fund SIPs. A convenience or stratified sampling technique may be used to obtain responses from approximately 250–400 investors. The questionnaire can include:

- Financial literacy items (knowledge of inflation, diversification, returns, and mutual funds)
- Risk perception items (fear of loss, volatility concerns, uncertainty)
- Investment decision items (SIP frequency, amount, tenure, and continuation intention)

Responses can be measured on a five-point Likert scale. Data analysis may be conducted using SPSS or SmartPLS through descriptive statistics, reliability testing, correlation analysis, and multiple regression/SEM.

6. Conceptual Framework

Independent Variables:

- Financial Literacy
- Risk Perception

Dependent Variable:

- SIP Investment Decision Making



Moderating Variable:

- Financial Literacy may reduce the negative effect of high risk perception on investment decisions.

7. Expected Findings

The study is expected to show that investors with higher financial literacy make more informed and confident SIP decisions. Risk perception may discourage investment when investors perceive market volatility as threatening. However, financially literate investors are expected to interpret market fluctuations more rationally, reducing the negative impact of risk perception. Therefore, financial literacy is likely to strengthen long-term participation in SIPs.

8. Conclusion

This research emphasizes the importance of behavioral and knowledge-based factors in investment decision making. Financial literacy can improve investor confidence and encourage disciplined investment through SIPs, while excessive risk perception may reduce participation. The findings can help mutual fund companies, financial advisors, and regulators design better investor education programs that improve participation and long-term financial well-being among retail investors.

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