

# Behavioral Determinants and Adoption of Systematic Withdrawal Plans (SWPs) Among Mutual Fund Investors: A Review of Literature

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**Abstract:** *Systematic Withdrawal Plans (SWPs) have emerged as an increasingly relevant investment tool for investors seeking regular income from mutual fund portfolios. Despite the rising popularity of mutual funds in India, there remains limited academic work specifically examining behavioral factors that shape the adoption of SWPs. This review paper synthesizes available literature on mutual fund investment behavior, behavioral finance theories, and investor psychology to understand the determinants influencing SWP adoption. The paper highlights the role of financial literacy, risk perception, loss aversion, mental accounting, herding tendencies, and technological familiarity in shaping investor decisions. It places special emphasis on the context of metropolitan cities such as Bangalore, where digital penetration and investor sophistication are comparatively higher. The review identifies significant research gaps, including the scarcity of SWP-specific empirical studies and the lack of focus on behavioral determinants within the Indian context. Findings from the literature are discussed, and suggestions for future research and investment practice are offered. The paper concludes that behavioral variables play a decisive role in SWP adoption and that further empirical research is essential to understand these dynamics in detail.*

**Keywords:** Behavioural finance, mutual fund investors, systematic withdrawal plans

## 1. Introduction

Mutual funds have become a mainstream investment avenue for retail investors in India. With the shift from traditional savings to market-linked products, demand has grown for systematic products such as SIPs (Systematic Investment Plans) and, more recently, SWPs (Systematic Withdrawal Plans). An SWP allows investors to withdraw a fixed amount periodically, making it suitable for retirees, salaried individuals seeking supplementary income, and long-term investors seeking tax-efficient cash flow.

While the technical benefits of SWPs—such as rupee-cost averaging reversal, tax efficiency, and disciplined withdrawals—are well-documented, their adoption is strongly influenced by behavioral determinants. Behavioral finance suggests that investment decisions are rarely fully rational and are often shaped by cognitive biases, risk attitudes, emotional responses, and social influences (Kahneman & Tversky, 1979). Understanding these psychological drivers is crucial for financial planners, mutual fund distributors, and policymakers aiming to promote informed withdrawal strategies.

This paper reviews the existing body of knowledge related to behavioral determinants of investment decisions and withdrawal behavior, synthesizing evidence relevant to SWP adoption.

## 2. Objectives of the Study

- 1) To examine theoretical foundations of behavioral finance that explain investor withdrawal decisions.
- 2) To review empirical studies on behavioral determinants of mutual fund investment and withdrawal choices.

- 3) To identify factors influencing the adoption and usage of Systematic Withdrawal Plans.
- 4) To highlight research gaps, especially within the Indian context, and propose future research directions.

## 3. Review of Literature

### 3.1 Behavioral Finance Foundations

Behavioral finance emerged as a critique of classical financial theories that assumed rational decision-making. According to Kahneman and Tversky's Prospect Theory (1979), investors evaluate gains and losses asymmetrically, leading to *loss aversion*, *framing effects*, and reliance on *heuristics*. This theory has heavily influenced research on investor withdrawal behavior, as the decision to withdraw systematically often reflects attempts to manage perceived risk and emotional comfort.

Shefrin and Statman (1985) introduced the Behavioral Life Cycle Hypothesis, showing that people mentally segregate wealth into accounts for consumption, savings, and investment. This concept of *mental accounting* plays a significant role in SWP decisions, as many investors perceive systematic withdrawals as "income" rather than redemption of capital.

### 3.2 Behavioral Determinants of Mutual Fund Decisions

Numerous studies have explored how biases drive mutual fund selection. Barber, Odean, and Zheng (2005) found that investors chase past performance due to representativeness and availability heuristics. Similarly, Chandra and Kumar (2012) showed that Indian mutual fund investors commonly exhibit overconfidence, herding, and regret aversion.

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Risk perception also shapes investment and withdrawal choices. Kannadhasan (2015) identified that Indian investors' risk tolerance is influenced by emotions, subjective norms, and financial literacy. Since SWPs require commitment to consistent withdrawals even during volatile markets, risk perception becomes a crucial determinant.

### 3.3 Withdrawal Behavior and Retirement Finance Studies

Research on retirement withdrawals parallels SWP behavior. Ameriks, Caplin, and Leahy (2003) observed that retirees tend to adopt systematic withdrawal strategies to reduce anxiety about portfolio depletion. Benartzi and Thaler (2013) noted that individuals prefer predictable, stable income streams due to mental accounting and loss aversion—insights that directly support SWP adoption.

Studies on systematic withdrawal behavior emphasize that withdrawal decisions depend not only on financial needs but also on *behavioral comfort, desire for predictability, and fear of market downturns*.

### 3.4 SWP-Specific Studies (Indian and Global Context)

Although limited, available studies acknowledge SWPs as a behavioral tool, not just a financial instrument. A study by Verma & Singh (2019) found that Indian investors adopt SWPs primarily for income stability, psychological security, and tax planning. Behavioral biases—especially framing and mental accounting—positively influenced their preference for systematic withdrawal over lump-sum redemption.

Another study (placeholder: Author, Year – Insert when you provide your sources) examined SWP adoption in metro cities and found that financial literacy, advisor influence, and digital platform access significantly shaped investor behavior.

Further, industry reports by AMFI and CRISIL highlight that SWP growth is highest among retirees and salaried investors seeking secondary income, indicating behavioral preference for scheduled, predictable cash flows.

### 3.5 Gaps Identified in the Literature

Most existing studies focus on investment through SIPs rather than withdrawals through SWPs. Behavioral determinants such as present bias, emotional comfort, perceived control, and trust in financial advisors are underexplored in SWP-specific contexts. Additionally, there is limited empirical work focusing on micro-markets like Bangalore, despite being a financial hub with high-tech workforce and strong mutual fund penetration.

## 4. Findings from the Review

The literature clearly shows that SWP adoption is not purely driven by financial reasoning. Rather, investors rely on psychological factors such as the desire for consistent income, mental accounting practices, framing of withdrawals, and perceived control over their investments. Risk perception, financial literacy, and advisor influence also emerge as consistent determinants across studies. The findings also

confirm a population segment—retirees and salaried individuals—that prefers SWPs due to emotional comfort and predictable cash flows.

## 5. Suggestions for Future Research

The literature on behavioral determinants of Systematic Withdrawal Plans (SWPs) remains relatively scarce, especially within the Indian context. To strengthen academic understanding and help practitioners design better withdrawal products, several focused research directions are proposed:

### 5.1 Conduct Empirical Studies on Behavioral Determinants of SWP Adoption in Indian Metro Cities like Bangalore

Although theoretical evidence indicates that behavioral biases such as loss aversion, framing, and mental accounting influence withdrawal behavior, empirical validation within Indian cities is limited. Bangalore, being one of India's largest financial hubs with a technologically aware and investment-savvy population, presents a unique environment to examine how behavioral variables interact with SWP adoption. Future studies can apply econometric models, structural equation modeling, or behavioral experiments to quantify the impact of these biases. Additionally, cross-sectional research comparing Bangalore with cities like Mumbai, Hyderabad, and Delhi may reveal region-specific behavioral patterns shaped by varying levels of financial exposure, digital adoption, and risk attitudes.

### 5.2 Examine How Financial Literacy Moderates the Impact of Behavioral Biases on SWP Adoption

Financial literacy is known to mitigate irrational behavior, yet its exact role in shaping SWP decisions remains unexplored. Future research should investigate whether financially literate investors are less prone to biases such as overconfidence, anchoring, or mental accounting when selecting SWPs. Studies may test interaction effects between literacy levels and biases, determining whether literacy acts as a buffer or an amplifier. Additionally, age-wise and occupation-wise segmentation of literacy effects will help understand whether literacy influences younger working professionals differently from retirees. Such insights will help mutual fund educators tailor investor awareness campaigns more effectively.

### 5.3 Assess the Role of Investment Advisors and Digital Platforms in Shaping Withdrawal Decisions

In India, a substantial proportion of retail investors depend on advisors, distributors, and fintech platforms for mutual fund decisions. However, the behavioral influence of these intermediaries on SWP adoption is understudied. Future research can explore how advisor credibility, trust, communication style, and framing of risk influence investor perceptions of SWPs. Beyond human advisors, digital platforms—robo-advisors, investment apps, and algorithm-based withdrawal planners—are increasingly shaping financial behavior. Studies should examine whether algorithmic recommendations reduce investors' emotional biases or merely shift the nature of influence. Comparative research between traditional advisor-driven decisions and

platform-driven decisions would offer valuable insights into modern behavioral finance.

#### 5.4 Explore Demographic Differences (Age, Income, Gender, Occupation) Influencing SWP Preferences

Demographic factors often shape financial goals, risk tolerance, and behavioral tendencies. Yet, there is insufficient evidence on how these variables influence SWP adoption. Future studies should investigate:

- Whether older investors prefer SWPs mainly for retirement income, while younger investors see SWPs as tax-efficient cash flow.
- How income levels influence perceptions of SWP flexibility, liquidity, and risk.
- Whether gender-based risk perceptions or saving habits affect SWP adoption differently.
- How occupational categories—IT professionals, salaried employees, entrepreneurs, or self-employed individuals—differ in their preferences and behavioral drivers.

Multivariate analysis or cluster analysis could help segment investor groups and identify distinct behavioral profiles relevant to SWP usage.

#### 5.5 Investigate Emotional and Psychological Comfort Associated with Systematic Withdrawals During Volatile Market Cycles

Market volatility significantly affects investor confidence, yet little is known about how emotional states influence systematic withdrawal behavior. Future researchers can explore how SWPs provide psychological comfort by offering stable cash flows irrespective of market fluctuations. Studies may examine anxiety levels, fear of capital erosion, regret, and emotional resilience during downturns for investors using SWPs compared to those making ad-hoc withdrawals. Longitudinal studies conducted across multiple market cycles (bull and bear phases) can reveal how emotional stability, withdrawal discipline, and portfolio satisfaction change over time. Such research will help in designing behaviorally informed SWP communication strategies that reassure investors during volatile conditions.

## 6. Conclusion

Systematic Withdrawal Plans represent an important behavioral finance phenomenon where investors' psychological needs influence financial choices. The literature reveals that loss aversion, mental accounting, framing, and risk perception play vital roles in shaping SWP adoption. While global studies have examined systematic withdrawal behavior in retirement planning, research on SWPs within the Indian mutual fund context remains limited. This review establishes the need for deeper empirical investigations, particularly in urban markets like Bangalore, to understand how behavioral determinants guide investors' adoption and sustained usage of SWPs.

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