

# A STUDY ON THE FINANCIAL LITERACY LEVEL AMONGST CHIT FUND INVESTORS WITH REFERENCE TO BENGALURU CITY

## Abstract

*The Indian financial market has been developing at a rapid pace in recent years with the Government playing an active role in regulating it and providing much safer and regulated avenues to the citizens for savings, investments as well as borrowings. However, we have been witnessing numerous scams in financial markets, especially in semi-regulated and unregulated markets, including the pyramid and ponzi schemes that initially offer exorbitantly high returns and ultimately swindle the investors' money. In spite of such scams, and also with better accessibility to safer avenues for savings, investments and borrowings, investors' preference still seems to be inclined towards the much riskier options like the Chit Fund Schemes, both regulated as well as unregulated. This article aims at studying and comparing the financial literacy and awareness level of alternate investment avenues amongst chit fund investors and non-chit fund investors.*



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## INTRODUCTION

**F**inancial market is a mechanism that allows buyers and sellers to participate in the trade of financial assets such as equities, bonds, currencies and derivatives. Financial markets can be organized or unorganized.

The Indian regulated financial markets have been witnessing a rapid growth not only in terms of its geographical coverage but also in terms of the avenues for investments and borrowings. In spite of the development of the organized

financial markets, investors even today continue to be fascinated by the services of players of the unorganized financial markets. Financial illiteracy may be one of the major reasons for such inclination of the investors. This poor financial literacy or financial illiteracy has been taken as an advantage by some which has ultimately led to various financial scams in the country. To name a few, I Monetary Advisory (IMA) Scam (June, 2019), Rose Valley Ponzi Scam (March, 2016), Basil International Ltd. Chit Fund Scam (July, 2016), Artha Tattva Group Chit Fund Scam

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(May, 2014), Sea Shore Group Chit Fund Scam (May, 2013), Saradha Group Chit Fund Scam (April, 2013).

Chit funds are amongst such players operating both in the organized as well as unorganized mode. Chit funds are financial instruments that provide a dual option to save and borrow at the same time. Conventionally they have been in the unregulated form operating within closed circles/ groups of friends, family members, business associates etc. having mutual interest in the scheme in some way or the other.

### **CHIT FUND - THE CONCEPT**

A chit fund comprises of a group of members called subscribers. The organizer of the chit or the chit fund company facilitates in bringing the members together and administers the funds raised by the chit in return for a fee or commission.

A chit scheme is usually run for a fixed number of months equal to the number of subscribers. Each subscriber is required to pay a monthly instalment into a common pool of funds usually referred to as the 'pot'. Every month, an auction is held to pick the 'pot' and the subscriber who bids the lowest value for the 'pot' gets the auctioned money as a one-time payment from the pool of funds. The amount foregone by such subscriber is treated as surplus of which the chit organizer gets a fee/ commission and the balance is equally distributed amongst the subscribers by adjusting the subsequent monthly instalments. The subscriber who won the auction continues to pay the monthly instalment until the scheme period ends and shall be barred from taking part in the subsequent auction/ bidding of the 'pot'. This process is repeated every month thereby, distributing the 'pot' value to each subscriber every month.

Hence, the system acts as a borrowing scheme, for subscribers bidding for the 'pot' in the early period of the scheme, who shall be able to access large sums of money before having paid the full amount. It also acts as a savings system, for subscribers who contribute every month and may retrieve a large sum in the future while receiving their share of the surpluses.

### **REVIEW OF LITERATURE**

Chen H and Volpe P (2002) concluded from the study that the students possessed average level of financial knowledge. Syed Tabassum Sultana (2010) focused to know the profile of the investors and to know their features so as to know their priority of their investments. Lusardi A et al (2010) aimed to measure the financial literacy level among youngsters in the U.S.A. The study concluded that they had low financial literacy. Further, it was also concluded that financial literacy levels differed based on gender. Fletschner and Mesbah (2011) in their study showed that women had approximately 16 per cent lesser information about formal financial credit sources than men in their communities. The study by Setty V S (2012) aimed to examine the financial literacy amongst college students in Mumbai. It was seen that the commerce and business graduates had a higher level of financial

literacy as compared to their science and arts counterparts. Agarwalla S K, et al (2013) concluded that the overall level of financial literacy among the working youngsters in urban India is similar to the levels among comparable groups in other countries. Abad-Segura E and González-Zamar M-D (2019) has studied the effects of financial literacy on creative entrepreneurship. Goyal K and Kumar S (2021) found that literature on financial literacy is dominated with quantitative methods, qualitative methods and would rather provide an in-depth understanding of the behaviour of people.

### **RESEARCH GAP**

From the preliminary exploration of literature, it has been found that literature on chit funds in India is essentially limited to the comparative studies of regulated and unregulated chit funds, frauds, role played by chit funds as an instrument to finance the economically weaker section etc. Available literature seldom talks about the level of financial literacy and reasons for the investors opting such avenues in spite of the risks involved. Hence scarcity of literature on the investors' financial literacy leading them to opt for chit funds in general against the much secured and regulated avenues gives rise to the need for a study on the same.

### **STATEMENT OF THE PROBLEM**

Financial literacy is a major concern for nations across the world. The financial behaviour of the citizens plays an important role in the direction of the nation's economy. Various studies have been carried-out throughout the world to find the level and effect of financial literacy. However, not all dimensions of financial literacy and investment have been covered. Chit fund investment is one such untouched area.

### **NEED FOR THE STUDY**

This study aims at evaluating and comparing the financial literacy and awareness level of alternate investment avenues amongst chit fund investors and non-chit fund investors., If the financial literacy and awareness level of alternate investment avenues is found to be low, steps may be taken for educating and spreading financial awareness amongst such groups. This would also help in increasing the financial inclusion and participation in the mainstream regulated financial markets.

### **OBJECTIVES OF THE STUDY**

1. To determine and compare the level of financial literacy among chit fund investors and non-chit fund investors.
2. To study the association of financial literacy with demographic and socio-economic variables of investors.
3. To study and compare the awareness level of alternate investment avenues among chit fund investors and non-chit fund investors.
4. To explore and compare the association of

awareness level of alternate investment avenues with demographic and socio-economic variables of investors.

**RESEARCH HYPOTHESIS**

The following null hypothesis have been framed for the purpose of this study:

H<sub>0,1</sub>: Chit fund investors are comparatively less financially literate than the non-chit fund investors.

H<sub>0,2</sub>: There is no significant relationship between the demographic factors of investors and their respective level of financial literacy.

H<sub>0,3</sub>: Chit fund investors are comparatively less aware of the alternate investment avenues than the non-chit fund investors.

H<sub>0,4</sub>: There is no significant relationship between the demographic factors of investors and their respective awareness level of alternate investment avenues.

**METHODOLOGY**

The study is primarily exploratory and descriptive in nature. Primary data has been collected through a self-constructed structured questionnaire administered. A sample for the study was selected based on the convenience sampling technique comprising of 188 respondents from varied socio-economic strata.

The questionnaire is tested for internal consistency and reliability using the Cronbach's Alpha computed using statistical tool – SPSS. It is considered reliable if the Cronbach's Alpha coefficient value is > 0.70.

Hypothesis testing is done using statistical tool – SPSS at 95 per cent confidence level.

**DATA COLLECTION & ANALYSIS**

Financial literacy has been evaluated based on the level of financial knowledge of the respondents in areas like interest, inflation risk-return, mutual funds and general stock market-based questions. Further, respondents were also administered with some numerical questions and overall level of financial literacy was categorised as low (1 to 8), moderate (9-12) and high (13-16).

**DATA RELIABILITY**

Cronbach's Alpha being the most widely used reliability measure, with a usually acceptable Alpha value being >0.70. We have tested the reliability of our questionnaire using this measure. The questionnaire having two major parts, one being the questions testing financial literacy of the subjects and the other assessing the level of awareness of various investment avenues. 16 different questions to measure the level of financial literacy were included in the questionnaire. The Cronbach Alpha coefficient value is 0.713, indicating a high level of internal consistency in the items. On the other hand, 20 avenues of investments were included in the questionnaire to determine the level of awareness. The

Cronbach Alpha for this part of the questionnaire is 0.833 again indicating a high level of internal consistency in the items.

The high level of internal consistency confirms reliability of the questionnaire for further analysis.

**TABLE 1: CRONBACH'S ALPHA**

Variable	Cronbach's Alpha	N of Items
Financial Literacy	0.713	16
Awareness Level	0.833	20

**FINANCIAL LITERACY**

To measure the level of financial literacy the subjects were asked to answer 16 questions related to financial knowledge. The correct answers were awarded a score of '1' and the wrong one's '0'. The total scores of the respondents was computed by aggregating the score of these 16 questions. The categorization of the level of financial literacy is as below:

**TABLE 2: CATEGORIZATION OF THE LEVEL OF FINANCIAL LITERACY**

Score	Level of Financial Literacy
> 12	High
8 - 12	Moderate
< 8	Low

The overall results are summarised hereunder.

**TABLE 3: CHIT FUND INVESTOR \* FINANCIAL LITERACY CROSSTABULATION**

		Financial Literacy			Total
		High	Moderate	Low	
Chit Fund Investor	Yes	20	60	15	95
	No	41	47	5	93
Total		61	107	20	188

An analysis of the above results shows that about 63 per cent of the chit fund investors possess moderate level of financial literacy, whereas 95 per cent of the investors possessing high to moderate level of financial literacy opt for investment avenues other than chit funds.

A further analysis among the chit fund investors shows the following results regarding the choice of registered v/s unregistered chit funds.

**TABLE 4: REGISTERED CHIT FUND \* FINANCIAL LITERACY CROSSTABULATION**

		Financial Literacy			Total
		High	Moderate	Low	
Registered Chit Fund	Yes	215	22	1	38
	No	5	38	14	57
Total		20	60	15	95

The above results show that 97 per cent of the investors opting for registered chit funds possess high to moderate level of financial literacy and 91 per cent of the investors opting for unregistered chit funds possess moderate to low level of financial literacy. These results clearly indicate that the level of financial literacy is an important factor for investors choice between registered and unregistered chit funds.

*Hypothesis Testing: H<sub>0,1</sub>*: Chit fund investors are comparatively less financially literate than the non-chit fund investors – From the above analysis we can accept the hypothesis and conclude that chit fund investors are comparatively less financially literate compared to the non-chit fund investors.

*Association of level of financial literacy with demographic factors*

**H<sub>0,2</sub>**: There is no significant relationship between the demographic factors of investors and their respective level of financial literacy.

**TABLE 5: AGE-WISE FINANCIAL LITERACY LEVEL**

Age – Financial Literacy		Financial Literacy			Total
		High	Moderate	Low	
Age	18-29	15	24	3	42
	30s	26	40	2	68
	40s	12	25	11	48
	50s	4	12	2	18
	60+	4	6	2	12
<b>Total</b>		61	107	20	188

**TABLE 6: GENDER-WISE FINANCIAL LITERACY LEVEL**

Gender – Financial Literacy		Financial Literacy			Total
		High	Moderate	Low	
Gender	Male	36	67	7	110
	Female	25	40	13	78
<b>Total</b>		61	107	20	188

**TABLE 7: MARITAL STATUS-WISE FINANCIAL LITERACY LEVEL**

Marital Status – Financial Literacy		Financial Literacy			Total
		High	Moderate	Low	
Marital Status	Married	34	65	18	117
	Unmarried	26	39	1	66
	Separated/ Divorced	0	2	0	2
	Widow/ Widower	1	1	1	3
	<b>Total</b>		61	107	20

**TABLE 8: EDUCATIONAL QUALIFICATION-WISE FINANCIAL LITERACY LEVEL**

Educational Qualification – Financial Literacy		Financial Literacy			Total
		High	Moderate	Low	
Educational Qualification	Less than high school	0	6	4	10
	High school or equivalent	4	27	6	37
	Diploma	2	10	7	19
	Bachelors Degree	33	63	3	99
	Masters or Ph.D. or Professional Degree	22	1	0	23
<b>Total</b>		61	107	20	188

**TABLE 9: EMPLOYMENT STATUS-WISE FINANCIAL LITERACY LEVEL**

Employment Status – Financial Literacy		Financial Literacy			Total
		High	Moderate	Low	
Employment Status	Student	4	17	1	22
	Housewife	3	19	10	32
	Unemployed	2	10	1	13
	Self-employed	15	34	8	57
	Private employee	33	23	0	56
	Retired	4	4	0	8
<b>Total</b>		61	107	20	188

**TABLE 10: SUMMARY OF RESULTS**

Demographic Factor	P-value	Accept/ Reject Null Hypothesis
Age	0.073	Accept
Gender	0.071	Accept
Marital Status	0.054	Accept
Educational Qualification	0.000	Reject
Employment Status	0.000	Reject

The Null hypothesis is accepted with respect to the age, gender and marital status and thus it is concluded that there is no significant relationship between these demographic factors of investors and their respective level of financial literacy.

Further, the Null hypothesis is rejected with respect to the educational qualification and employment status and thus, concluded that there is significant relationship between these demographic factors of investors and their respective level of financial literacy.

**AWARENESS LEVEL**

To measure the level of awareness of the various investment avenues the subjects were enquired with respect to their awareness of 20 different investment avenues classified as low risk, high risk, traditional, modern and emerging investment avenues. The positive responses were accorded a score of '1'. The total scores of the respondents were computed. The categorization of the level of awareness is as below:

**TABLE 11: CATEGORIZATION OF THE LEVEL OF AWARENESS**

Score	Level of Awareness
> 15	High
11 – 15	Moderate
< 11	Low

The overall results are summarized below:

**TABLE 12: CHIT FUND INVESTOR \* AWARENESS LEVEL CROSS TABULATION**

		Awareness Level			Total
		High	Moderate	Low	
Chit Fund Investor	Yes	81	9	5	95
	No	74	14	5	93
Total		155	23	10	188

An analysis of the above results shows that majority of the investors possess a high level of awareness regarding the available investment avenues, irrespective of the investor being a chit fund investor or not. Hence, it may be concluded that the awareness level may not be a factor for opting investment in chit fund.

*Hypothesis Testing: H<sub>0,3</sub>*: Chit fund investors seem to possess almost equal level of awareness of the alternate investment avenues as the non-chit fund investors. From the above analysis we can reject the hypothesis and conclude that chit fund investors are equally aware of the alternate investment avenues as compared to the non-chit fund investors.

*Association of awareness level with demographic factors*

*H<sub>0,4</sub>*: There is no significant relationship between the demographic factors of investors and their respective awareness level of alternate investment avenues.

**TABLE 13: AGE-WISE AWARENESS LEVEL**

Age – Awareness Level		Awareness Level			Total
		High	Moderate	Low	
Age	18-29	37	5	0	42
	30s	62	4	2	68
	40s	40	6	2	48
	50s	10	5	3	18
	60+	6	3	3	12
Total		155	23	10	188

**TABLE 14: GENDER-WISE AWARENESS LEVEL**

Gender – Awareness Level		Awareness Level			Total
		High	Moderate	Low	
Gender	Male	94	10	6	110
	Female	61	13	4	78
Total		155	23	10	188

**TABLE 15: MARITAL STATUS-WISE AWARENESS LEVEL**

Marital Status – Awareness Level		Awareness Level			Total
		High	Moderate	Low	
Marital Status	Married	88	21	8	117
	Unmarried	64	1	1	66
	Separated/ Divorced	1	1	0	2
	Widow/ Widower	2	0	1	3
Total		155	23	10	188

**TABLE 16: EDUCATIONAL QUALIFICATION-WISE AWARENESS LEVEL**

Educational Qualification – Awareness Level		Awareness Level			Total
		High	Moderate	Low	
Educational Qualification	Less than high school	3	1	6	10
	High school or equivalent	26	7	4	37
	Diploma	5	14	0	19
	Bachelor's Degree	98	1	0	99
	Masters or Ph.D. or Professional Degree	23	0	0	23
Total		155	23	10	188

**TABLE 17: EMPLOYMENT STATUS-WISE AWARENESS LEVEL**

Employment Status – Awareness Level		Awareness Level			Total
		High	Moderate	Low	
Employment Status	Student	19	3	0	22
	Housewife	17	11	4	32
	Unemployed	8	3	2	13
	Self-employed	51	2	4	57
	Private employee	54	2	0	56
	Retired	6	2	0	8
Total		155	23	10	188

**TABLE 18: SUMMARY OF RESULTS**

<b>Demographic Factor</b>	<b>P-value</b>	<b>Accept/Reject Null Hypothesis</b>
Age	0.001	Reject
Gender	0.295	Accept
Marital Status	0.001	Reject
Educational Qualification	0.000	Reject
Employment Status	0.000	Reject

The Null hypothesis is accepted with respect to the gender and thus it is concluded that there is no significant relationship between gender of investors and their respective level of awareness.

Further, the Null hypothesis is rejected with respect to the age, marital status, educational qualification and employment status and it is concluded that there is significant relationship between these demographic factors of investors and their respective level of awareness regarding the alternate investment avenues.

**MAJOR FINDINGS**

The major findings of the study are:

- ⊙ Chit fund investors are comparatively less financially literate than the non-chit fund investors.
- ⊙ Of the chit fund investors, those opting for the registered chit funds possess high to moderate level of financial literacy and those opting for unregistered chit funds possess moderate to low level of financial literacy.
- ⊙ There is no significant relationship between the age, gender and marital status of investors and their respective level of financial literacy.
- ⊙ There is significant relationship between the educational qualification and employment status of investors and their respective level of financial literacy.
- ⊙ Chit fund investors seem to possess almost equal level of awareness of the alternate investment avenues as the non-chit fund investors.
- ⊙ There is no significant relationship between the gender of investors and their respective level of awareness of alternate investment avenues.
- ⊙ There is significant relationship between the age, marital status, educational qualification and employment status of investors and their respective level of awareness of alternate investment avenues.

**SUGGESTIONS**

The findings of the study suggest that the financial literacy level of the chit fund investors need to be improved through various investor awareness programmes. Further, it is suggested that the investment procedures of alternate investment avenues be simplified and made more investor friendly. This would help in expanding the financial inclusion coverage and open-up the financial markets for all types and class of investors.

**CONCLUSION**

The study was based on a total of 185 respondents (investors) from Bengaluru city to study and compare the level of financial literacy and awareness level of alternate investment avenues among chit fund investors and non-chit fund investors. From the findings of the study, it may be concluded that -

- ⊙ chit fund investors are comparatively less financially literate as compared to the non-chit fund investors.
- ⊙ chit fund investors are equally aware of the alternate investment avenues as compared to the non-chit fund investors. **MA**

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