

## Post Investment Exposure of Rural Populace in Indigenous Chit Funds, 'Kurris' or 'Chitties' in Kerala

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**Abstract:** Post-investment exposure, especially in rural areas, is frequently not fully investigated. This study investigates how investors in indigenous chit funds in Kerala, locally called as 'Kurris' or 'Chitties', behave after making an investment, with the goal of identifying the factors that affect their opinion, satisfaction, perception, and future investment intentions. The study employs a descriptive as well as an analytical approach, gathering primary data from 200 rural investors in Kerala through structured questionnaires. Additionally, it utilises secondary data from various reports, publications, and journals. The research design is both descriptive and analytical in nature. Even though Chit Fund schemes are common, there is still a lack of understanding regarding investor behavioural post-participation. This study aims to bridge this gap by examining the opinion, attitudes, motivations, and satisfaction levels of investors, thereby guiding efforts to improve financial literacy and inclusion in rural areas. This study also confirms the association between investment satisfaction and behavioural intentions, and the association between investors' awareness and investment attitude towards Kurris. The study highlights that Kurris are most liquid, flexible, economic, social, co-operative, accessible, simple, and gender neutral indigenous investment avenue for rural and low income populace.

**Keywords:** Post investment exposure, Rural populace, Indigenous Chit fund, Kurris, Chitties, Investment satisfaction, behavioural intention.

### 1 Introduction

An investment aims to grow wealth over time, securing future financial needs (Siegel, J. J, 2021). It involves spending money today with the expectation of future financial returns such as interest, dividends, or capital appreciation. Investments are often intended to meet various financial goals like income shortages, retirement, loan

repayments, or funding education. Post-investment behaviour is influenced by uncertainty and risk, shaped by factors like risk propensity, preference, attitude, and awareness (Swensen, D.F, 2005). Chit funds are popular rotating savings and credit associations in India, combining savings and credit in a single scheme (Kapoor et al., 2011). Participants pool money at regular intervals, with competitive bidding determining the borrower for each round (P. Rao & S. Buteau, 2018). These funds serve as an important financial tool for low-income households and small businesses, offering no or lower interest rates than moneylenders and financial institutions (Kapoor et al., 2011). Despite their popularity, the number of registered chit schemes has decreased over time, though the total value has increased (Kapoor et al., 2011). Chit funds are considered safe by most participants, with 72 per cent joining primarily for savings purposes (Kapoor et al., 2011). However, the industry faces challenges, including credit risk assessment (P. Rao & S. Buteau, 2018) and regulatory costs that make serving low-value schemes less profitable (Kapoor et al., 2011). Despite these issues, chit funds remain a significant part of India's financial landscape, particularly in areas like Tamil Nadu (P. Shunmugathangam, 2019). Chit funds serve as a mix of savings and borrowing instruments, often providing higher returns compared to other intermediaries. Chit funds act as financial intermediaries, helping investors and borrowers meet their financial goals. This study explores the post-investment behaviour of investors in rural chit funds, focusing on their attitudes, motivations, and satisfaction.

### 1.1 Kurri and Chitty

Indigenous Chit funds in Kerala often known as 'Kurris' and 'Chitties', especially in Malabar region. These funds are operated by the private individuals and are one of the major sources for small-scale financing and rural households (Suresh, A, 2023). Whatever the name called, these are popular saving schemes in Kerala, and organised and registered forms of these chit funds are functioning as non-banking financial companies in public sectors (KSFE Ltd.) and private sectors (Manappuram Finance Ltd, Muthoot Finance Ltd, Kosamattam Finance Ltd, etc.), while unorganised/unregistered chits are operated by local private individuals, informal partnerships), where people contribute a fixed amount over a period. Kurris and Chit funds in Kerala operate through a unique system involving the formation of groups, monthly contributions, and an auction process where the highest bidder receives the collected sum minus the bid amount. This system relies heavily on trust and is regulated under the Kerala Chitties Act, 1975, and the Central Chit Funds Act, 1982 (Ramachandran, 2020). Chit funds in Kerala rely significantly on trust and community engagement for their operations (Ramachandran, 2020).

**Below is an in-depth examination of their methods of operation:**

### **1.2 Modes Operandi of Kurris and Chitties in Kerala**

**Establishment of Chit Groups:**A chit fund is created when a set of people decide to pool a set amount of money for a certain period of time. The number of participants typically matches the number of months in the rotation of chit. For instance, a 36 months 'Kurri' with 36 members.

**Process of bidding on items for sale:** Every month, a chit amount auction is held for members to place their bids. The winner is the bidder who bids the highest amount and agrees to accept the chit at a reduced price, receiving the total contributions minus their bid.

**Allocation of Finances:**The bidder who wins will get the chit fund amount minus the discount. The discount is divided evenly among all members in the form of a dividend, decreasing their total payment.

**Monthly Deposits:**Every participant, even the bidder who won, must keep making their monthly payments until the cycle is finished.

**Role of foreman:**The foreman manages the chit fund, oversees the auctions, and guarantees the efficient operation of the fund. The supervisor receives payment based on a commission, typically a percentage of the chit amount.

Though there are certain regulation and legal structure for governing chit funds in Kerala like The Kerala Chitties Act, 1975, the Central Chit Funds Act, 1982 etc., most of the indigenous Kurris and chitties are out of the vicinity and clutches of such regulations. Adhering to these laws guarantees visibility and safeguarding for members.

### **1.3 Statement of the Problem**

Despite the popularity of chit funds in rural areas, understanding post-investment behaviour is limited. Besides, although, there are many studies discuss the operational mechanism, prospects, problems, investors' perceptions etc., of organised chit funds in India as well as Kerala, no serious studies were found concerning investment in unorganised indigenous Kurris and chitties. This gap makes it difficult for operators and policymakers to create effective strategies for investor retention, financial literacy, and sustainable inclusion. This study investigates factors influencing continued participation, satisfaction, and decision-making among rural chit fund investors to develop tailored approaches for responsible investment practices.

## **2 Literature Review**

**2.1 Chit Funds: Overview and Functioning:** Chit funds, a commonly used savings system in India, have been researched for their effects on various demographic categories and their contribution to financial inclusivity. Agarwalla (2016) emphasized the importance of chit funds as a savings method that combines education and employment to affect participation in various chit funds, proving beneficial for low-

income individuals. Arora (2015) emphasized the growing knowledge among investors regarding chit fund companies, attributed to media attention, and proposed regulatory changes to safeguard middle-class investors from scams. Gupta (2016) discovered that people in rural areas frequently cannot differentiate between registered and unregistered chit fund companies, and therefore turn to small savings schemes because of limited financial knowledge. Rangarajan et al. (2013) highlighted the favourable opinions of investors towards chit funds, where women and family have important influences on investment choices. Jothilingam and Kannan (2013) highlighted that diverse investment options have differing expectations of risk and return, and demographic factors significantly influence investment decisions. Chit funds are a type of rotating savings and credit association system that is well-liked in India, particularly in Kerala and Tamil Nadu, and they function as both a means of saving and borrowing for members (Shunmugathangam, 2019). Agarwalla (2016) suggests that chit funds serve as a dual financial tool, offering both savings and lending options, especially benefiting lower-income individuals who see them as a form of insurance.

**2.2 Post Investment Exposure:** Investment exposure indicates the total funds an investor has put into a specific asset, sector, or market, showing the amount of risk they are assuming. It refers to how much an investor is impacted by the performance of a particular investment or investments. Balancing potential returns with associated risks is essential when managing exposure (Investopedia, n.d.). Post-investment exposure is the risks and capital allocation that continue or emerge following an initial investment. This encompasses continuing dangers related to how the investment performs, shifts in the market, and additional factors that may affect the investment's value in the long run (Investopedia, n.d.).

The current study examines the post investment exposure in connection with the investment in Kurris in Kerala. Concerned thematic review results are; investors' views on chit funds are shaped by various factors, such as faith in the system, knowledge of finances, and socio-economic standing. Hemalatha (2019) highlights that demographic factors such as age, gender, occupation, and internet usage play a significant role in investment choices, including involvement in chit funds. Soumya and Reddy (2016) also highlight that investor attitudes are influenced by variables like risk tolerance and the perceived safety of investment options, with a lot of people favouring bank deposits over chit funds because of increased trust and perceived safety. Different demographic factors and personal preferences impact investment habits. In her 2019 research, Hemalatha surveyed 374 people in Chennai and discovered that gender, age, occupation, and internet usage impact investment choices. Common options included fixed deposits, insurance policies, and government securities. In Hyderabad, Soumya and Reddy (2016) studied how investor views are influenced by demographic variables like age, gender, and income, finding that people tend to choose bank deposits due to their secure nature. Mallick and Sahoo (2016) also found that investment attitudes are

influenced by factors such as investment timeframe, goals, and demographic characteristics like age, education, and job. In a study conducted by Umamaheshwari and Kumar (2014), it was discovered that the majority of investors prioritize fixed deposits due to their security and ease of access, with gold and mutual funds as secondary choices. Ramprasanth and Karthikeyan (2013) stressed that safety is the main priority for retail investors, who opt for bank deposits, LIC policies, and bullion.

**2.3 Satisfaction Levels:** Chit fund investors' satisfaction levels differ greatly based on their experiences and investment results. Rangarajan et al. (2013) discovered that women generally view chit funds positively due to their community-oriented approach. Nevertheless, the effectiveness and openness of the fund management can impact satisfaction levels. Gupta (2014) points out that failing to differentiate between registered and unregistered chit fund companies can result in investor discontent and distrust.

**2.4 Problems and Challenges of Chit funds:** Even though they are widely used, chit funds encounter various obstacles that may affect investor trust and contentment. Arora (2015) highlights how the media reporting on chit fund scams has caused investors to be more careful, resulting in higher examination and a call for regulatory changes. Sharma (2012) highlights the importance of strong risk communication and regulatory frameworks to safeguard investors due to the potential for fraud and mismanagement in certain chit funds that lack regulation.

A major issue linked to chit funds is the possibility of members not meeting their obligations or the foreman mishandling the funds. Mathi and Kunkumapriya (2014) point out that although chit funds provide a versatile avenue for saving and borrowing, the absence of official regulatory supervision can result in problems like late payments and monetary setbacks. Agarwalla (2016) also emphasizes that lower-income groups, especially, are at risk of these dangers because they frequently do not have other financial resources available. Chit funds continue to be a widely-used financial instrument in India because they serve as both a means of saving and borrowing. Nevertheless, demographic variables trust in the system, and the regulatory environment significantly impact investor attitudes and contentment. To improve the trust and contentment of investors, it is crucial to implement stricter regulations and increase transparency in the administration of chit funds.

### **3. Materials and Method**

**3.1 Significance of the Study:** Chit funds play a crucial role in rural financial ecosystems. However, there is little empirical research on investor behaviour post-participation. This study aims to fill that gap by examining belief patterns, spending habits, risk perception, and subsequent/continual investment decisions. The findings will inform strategies for financial literacy, risk mitigation, and economic development in rural areas. The study focuses on post-investment behaviour of chit fund investors in

rural areas of Kozhikode, Malappuram districts in Kerala, chosen by multistage random sampling approach.

### 3.2 Objectives of the Study

- Understand factors influencing post-investment behaviour of rural populace in Kerala.
- Assess post-investment satisfaction of rural populace in Kurris and chits.
- Understand the awareness level of regulatory
- Analyse behavioural (re-investment and W-o-M) intentions of rural populace.

### 3.3 Hypotheses of the Study

H01: Post-investment satisfaction does not influence the behavioural intentions of investors/members in Kurris.

H02: Awareness of does not significantly affect the further investment attitude of investors.

**3.4 Research Methodology:** The study employs analytical research, collecting primary data from 200 investors in Malappuram and Kozhikode districts in Kerala via structured questionnaires and secondary data from reports, publications, and journals. The research design of the study is descriptive as well as analytical in nature.

### 3.5 Sample Design

- **Sampling Area:** Malabar Region, focused on 4 panchayaths of randomly selected two districts in Kerala: Malappuram district (Kalikavu Panchayath and Vengara Panchayath) and Kozhikode district (Thikkodi Panchayath and Moodadi Panchayath)
- **Sample Size:** 200 rural investors of Chit funds (50 respondents each from 4 panchayaths).
- **Sampling Technique:** Multi-stage random sampling is applied to select 4 panchayaths from total panchayaths of 14 districts in Kerala.

Data analysis has been carried out by using percentage analysis and chi-square tests and data is presented using tables, charts, pie diagrams, and column diagrams, prepared with Microsoft Excel and Word.

## 4 Results and Discussion

A structured questionnaire comprising 14 questions having multiple options was distributed to 200 numbers of selected respondents in 4 panchayats to analyse the post investment satisfaction, behaviour and intention of investors of local Kurris and chits.



**4.1 Demographic and Behavioural pattern of Investors of Kurris and Chitties:** Demographical variables considered for the study were gender, age, educational status, occupational status and income status of the chit investors. To analyse behavioural pattern of respondents, variables considered consist of motivating factor, goal of investment, point of attraction, utilisation of fund, awareness, satisfaction, perceived safety, continual intention, and recommending (Word of mouth) intention. Regarding motivating factors, goal, point of attraction, and utilisation, commonly agreed investment related options are given in questionnaire to choose whereas to analyse the awareness, satisfaction, intentions, etc., 5 point Likert scale is applied. Table 1 is the summary table of the total data collected.

**Table 1: Table Summary of demographical and behavioural responses of investors**

Sl.No.	Classification	Majority Group	Percentage
1	Gender	Male	52
2	Age	21-30	65
3	Education	Graduation and equivalent	45
4	Occupation	Private job	39
5	Monthly Income	Below 25000	48
6	Motivation for Chit Fund Investment	Friends and relatives	67
7	Goal of Chit Fund Investment	Growth	35
8	Factors Influencing Chit Fund	Scheme features	38
9	Utilization of Chit Fund Money	Further investment	34
10	Awareness about Chit Funds	Good	49
11	Satisfaction with Return on Investment	Satisfied	80
12	Perceived Safety of Investment	Safer	54
13	Intention to Continue Investing	Yes, definitely	49
14	Recommendation of Investment	Yes, definitely	44

(Source: Primary Data)

The analysis reveals a balanced gender representation among the respondents, with an almost equal split between male and female participants. The majority (65 per cent) belong to the 21-30 age group, indicating a younger demographic. Most respondents are well-educated, with 45 per cent having graduated. In terms of occupation, 39 per cent are employed in private jobs, and nearly half (48 per cent) have a monthly income below 25000. Friends and relatives play a crucial role in motivating 67 per cent of respondents to invest in Kurris, with growth (35per cent) and higher returns (34 per cent) being the primary investment goals. Scheme features are the most influential

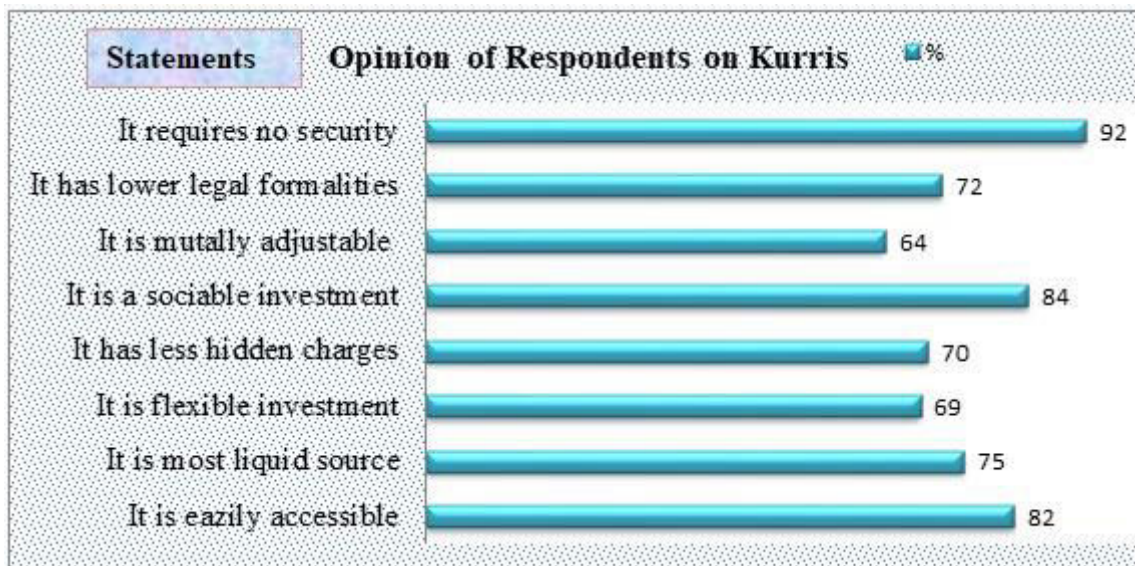
factor for 38 per cent of respondents, highlighting the importance of specific benefits offered by Kurris.

The utilisation of Kurris money predominantly goes towards further investment (34 per cent), reflecting a trend of reinvesting returns. Awareness levels about Kurris and chit funds are generally good, with 49 per cent of respondents well-informed. Satisfaction with returns is high, with 49 per cent satisfied and 31 per cent highly satisfied (total 80 per cent). The perception of investment safety is positive, as 54 per cent of respondents consider Kurris and chit funds safer. Future investment intentions are strong, with 49 per cent definitely intending to continue investing, and 44 per cent would recommend Kurris and chit funds to others, indicating overall satisfaction and trust in these investment options.

#### 4.2 Opinion and Attitude of Respondents on Kurris and Chitties

In order to examine the opinion and belief of rural populace on indigenous Kurris and chitties eight statements (framed in Likert 5 point scales: strongly disagree to strongly agree) regarding their investment experience in terms of legal formalities, mutual adjustments, requirement of collateral security, social involvement, flexibility in amount and term, liquidity of funds, accessibility of Kurris and chits, hidden costs were served to append their responses.

**Fig.1 Post Investment Opinion on Kurris**



When strongly agreeing and agreeing respondents considered together, 92 percent of rural informants are of the opinion that rural Kurris do not need any collateral security. More than 80 per cent opined that local Kurris are socially engaged investment vehicle and one that is easily accessible. More than 70 percent opined that local chits are more liquid, with less legal strings and no hidden charges or operational expenses. More than 60 per cent of the respondents affirmed that indigenous Kurris are mutually adjustable among members of Kurris, and one of the most flexible



investment avenues. In short, most of the respondent rural populace agreed that indigenous Kurris are most accessible, flexible, liquid, economic, social, transparent, and liberal investment alternative among the locally available investment alternatives. It is flexible in the sense that various Kurris are available locally with varied subscription amount and periods. It is reliable source of fund in situations like members' weddings, Housewarming, etc. Because the concerned member can get the more fund with the cooperation of other members (mutual adjustments) by reducing the bid amount.

### 4.3 Testing of Hypotheses

**1. Relationship between Post-Investment Satisfaction and Behavioural Intention in Indigenous Chit Funds (Kurris).** For testing the relationship between post-investment satisfaction and behavioural intention (continual intention and W-o-M intention), chi-square test is used.

**Hypothesis (Ho1):** Post-investment satisfaction does not influence the behavioural intentions of investors/members in Kurris.

**Table 2 Chi-Square Test**

Test	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	51.196	9	0.001
Likelihood Ratio	49.306	9	0.001
Linear-by-Linear Association	34.813	1	0.012
Number of Valid Cases	200		

Interpretation: Since the p-values for the Pearson Chi-Square, Likelihood Ratio, and Linear-by-Linear Association tests are below 0.05, we reject the null hypothesis (Ho) and accept the alternative hypothesis (H<sub>1</sub>). This shows that investor satisfaction after making an investment has a significant impact on the intentions of their behaviour towards chit funds. We can conclude that people who have once joined a Kurris, experience its unique features and facilities, they are willing to invest in such Kurris again and recommend its qualities to their friends and relatives.

**2. Association between Awareness and Further Investment Attitude in Chit Funds (Kurris).** To test this association chi-square test is applied

**Hypothesis (Ho2):** Awareness of does not significantly affect the further investment attitude of investors.

**Table 3 Chi-Square Test**

Test	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	28.599	15	0.018
Likelihood Ratio	29.88	15	0.012
Number of Valid Cases	200		

As the p-values of the Pearson Chi-Square and Likelihood Ratio tests are below 0.05, we can reject the null hypothesis ( $H_0$ ) and favour the alternative hypothesis ( $H_1$ ). This implies a strong link between awareness of Kurris and investors' willingness to re-invest. Higher the awareness of investors on Kurris and its facilities more will be the positive attitude they reflect to reinvestment in such Kurris. Both groups of hypothesis show that there are important connections and links between satisfaction after investment and intentions for future actions, as well as between awareness and attitudes towards additional investments among Kurris' investors. This highlights the significance of satisfaction and awareness in impacting reinvestment decisions in Kurris. It should be noted that while the regulatory framework remains in place, many indigenous Kurris function outside of the clutches of this regulatory framework. However, it is interesting to note that the rural populace has more trust in this Indigenous set ups than the organized and regulated chit fund system. Although there have been several reports in the news about the insecurity of such chit funds run by private individuals, the rural population does not seem to have lost faith in the Kurris.

## 5. Conclusions

The primary focus of this paper is on the behaviour of investors after making an investment in the indigenous chit fund, locally known as 'Kurris' located in the Malabar region of Kerala. A Kurri is an arrangement where individuals, including friends, relatives, neighbours, and family members, agree to contribute a specified amount of money for a specific duration. According to this study, most Kurri's investors are graduates and primarily private job employees. Notably, individuals earning relatively lesser income tend to invest more in Kurris and chitty. A significant portion of Kurri's members are joined due to the motivation from the friends and relatives, and most of them are attracted by scheme features and convenience. Investors mainly aim for growth, with many using chit fund returns for further investments. Awareness of indigenous chit funds is high, with 44% recommending them to others. Nearly half of the respondents are highly satisfied with their beneficial returns, and a majority feel that Kurri investments are safe, economical, flexible,

liquid, accessible, flexible, social, mutually beneficial investment options and thereby with most planning to continue their investments in Kurris. Current members of the Kurris hold a positive view of the Kurris programs. The study conducted a thorough examination of the functioning of indigenous chit fund schemes (Kurris) and the associated features. The study includes the responses of 200 participants, confirming that the 'Kurris' or 'Chitty' is highly valuable and favoured investment/fund source, especially among rural low-income profile populace while comparing with other available investment and funding options. In order to increase awareness and participation in Kurris and chit fund investments, particularly among rural investors, the following measures are suggested: organise awareness campaigns targeting rural investors to educate them about chit fund investments; introduce schemes with lower investment requirements to appeal to individuals in lower and middle-income brackets; effectively communicate the advantages of various chit fund schemes, and its regulatory mechanism to the public; and enhance scheme features based on survey feedback to make them more attractive and beneficial for potential investors.

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