A BEHAVIOURAL ECONOMIC ANALYSIS OF CHIT FUND PARTICIPATION: A STUDY ON POPULARITY OF KERALA'S TRADITIONAL SAVINGS SCHEME

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BACHELOR OF ARTS IN ECONOMICS

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CERTIFICATE

This is to certify that the project titled **"A Behavioural Economic Analysis of Chit Fund Participation: A Study on Popularity of Kerala's Traditional Savings Scheme"** submitted in partial fulfilment of the requirement for the award of the degree of Bachelors of Arts in Economics to St. Teresa's College (Autonomous) (Affiliated to Mahatma Gandhi University, Kottayam) is a bonafide record of the work done by the project group under my supervision and guidance.

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DECLARATION

We hereby declare that the project "A Behavioural Economic Analysis of Chit Fund Participation: A Study on Popularity of Kerala's Traditional Savings Scheme" submitted by us for the Bachelor of Arts Degree in Economics is our original work.

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CHAPTER:1
A BEHAVIOURAL ECONOMIC ANALYSIS OF CHIT FUND PARTICIPATION:
A STUDY ON POPULARITY OF KERALA'S TRADITIONAL SAVINGS SCHEME

1.1 INTRODUCTION

A Chit fund is a financial instrument used widely in Kerala for borrowing and saving money. Chit funds have been a part of Kerala for a long time as one of the major tools for financial management (RBI, 2017). Chit funds work in a systematic manner by pooling fixed funds from participants every month. This pooled money is distributed to one of the members and this process continues till each one of the members receive the pooled sum of money. The winner of the pooled money is decided by bidding or lottery. The winner is the person who bids the least amount of money (Government of India, 1982). Chit funds facilitate group savings enabling various behavioural motivations to participate. Chit funds are embedded in social network, trust and community. The high level of participation in Kerala cannot be explained by lack of financial literacy as it is the highest literate state in the country (Census of India, 2011).

Chit funds are preferred by a large proportion of people as it enables them to save in a disciplined manner and provides liquidity without relying on hectic procedures of banks (RBI, 2017). The chit funds are composed of men and women of different age groups often from the same neighbourhood or locality who share acquaintances. There exist both organised and unorganised chit funds. Organised chit funds are regulated by the government and registered under the Chit fund act of 1982. It provides transparency and guarantees safety. On the other hand, unorganised chit funds are informal in nature and are not regulated by the government. This includes neighbourhood and local chit funds which can be fraudulent reflecting higher chance of risk (Government of India, 1982).

According to conventional economic theories, people take financial decisions rationally which is not the case in the real world. Integrating chit funds with behavioural economics gives insight on psychological, social and emotional factors that influence decision making (Thaler, 2015). Factors such as trust, risk perception, peer influence, present bias, mental accounting, and herd behaviour significantly influence individuals' participation in informal financial schemes like chit funds. These behavioural aspects vary across age groups, income levels, and gender (Kahneman, 2011).

This study analyses the behavioural factors that influence chit fund participation using secondary data. Data is collected using a structured questionnaire analysing how factors vary with age, income and gender. This study aims to understand the financial behaviour in Kerala.

1.2 REVIEW OF LITERATURE

Chit funds continue to occupy a significant place in the informal and semi-formal financial landscape of Kerala, despite the rapid expansion of formal banking institutions and digital financial services. Their sustained popularity indicates that participation in chit funds cannot be explained purely through conventional economic models based on rational choice and profit maximisation. Instead, behavioural economics provides a more nuanced framework to understand why individuals continue to prefer chit funds as a savings and borrowing mechanism. This review of literature integrates studies from behavioural economics, sociology, and financial inclusion to explain the psychological, social and economic drivers of chit fund participation.

1.2.1 Chit Funds as a Behavioural Commitment Device

One of the most influential behavioural explanations for chit fund participation is mental accounting, a concept introduced by **Thaler (1985, 1999)**. Mental accounting explains how individuals categorise money into different "accounts" based on its source or intended use. Chit fund contributions are often mentally labelled as forced savings meant for future goals such as education, marriage, housing, or emergency needs. This mental segregation reduces the likelihood of using the money for routine consumption, thereby promoting disciplined saving behaviour. This idea is reinforced by **Sarma and Prasanna (2014),** who observed that households with irregular or informal income streams struggle with consistent saving through formal banking channels. Chit funds function as an effective commitment device, compelling individuals to save regularly regardless of income fluctuations. The mandatory monthly contribution creates a structure that helps overcome self-control problems, a key concern addressed in behavioural economics.

Furthermore, chit funds counteract the problem of hyperbolic discounting, as explained by **Laibson (1997).** Hyperbolic discounting refers to the tendency of individuals to prefer immediate gratification over long-term benefits. By enforcing fixed payment schedules and penalties for default, chit funds reduce the temptation to prioritise present consumption over future financial security. Participants are thus nudged into long-term financial planning, even if they initially lack strong self-discipline. The motivation to remain consistent in contributions is further strengthened by loss aversion, a central idea from **Kahneman and Tversky's (1979)** Prospect Theory. Individuals experience losses more intensely than equivalent gains. In the context of chit funds, the fear of losing already paid instalments, forfeiting dividends, or damaging one's social reputation discourages default. This behavioural bias plays a crucial role in sustaining participation throughout the chit cycle. Additionally, **Shylajan and Mythili (2003)** highlight that chit funds are attractive due to their simplicity and tangibility. Unlike stocks, mutual funds, or insurance products—which are often perceived as complex and abstract—chit funds involve clear rules, fixed contributions, and visible outcomes. However, the authors also caution that the informal nature of certain chit funds exposes participants to risks such as mismanagement and fraud, indicating a behavioural trade-off between simplicity and safety.

1.2.2 Social and Cultural Influences on Chit Fund Participation

Beyond individual psychology, social factors play a critical role in sustaining chit fund participation. **Cialdini's (1984)** theory of social proof and herding behaviour explains how individuals, especially those uncertain about financial decisions, tend to imitate the actions of others. In Kerala, chit fund participation is often influenced by family members, neighbours, co-workers, and community networks. Observing trusted individuals successfully participating in chit funds reduces perceived risk and encourages others to join. This social influence extends beyond imitation to a sense of community belonging. Participation in chit funds often fosters interpersonal trust and mutual accountability. The collective nature of the scheme creates informal peer monitoring, ensuring regular payments and discouraging default. This aligns with **Pillai and Subramanian (1990)**, who emphasised that social trust and reputation are central to the functioning of chit funds.

While this trust ensures repayment discipline, it can also create social pressure, making participation feel obligatory rather than voluntary. The cultural embeddedness of chit funds is further supported by **Geertz's (1962)** analysis of Rotating Savings and Credit Associations (ROSCAs). Geertz argued that ROSCAs are not merely financial mechanisms but social institutions deeply rooted in local culture and tradition. In Kerala, chit funds—locally known as Kuri—represent a modernised form of traditional financial cooperation. Their success lies in their ability to combine economic functionality with cultural familiarity, reinforcing both trust and long-term participation.

1.2.3 Chit Funds as Instruments of Financial Inclusion

Another important strand of literature highlights the role of chit funds in bridging gaps left by the formal banking system. **Basu (2005)** noted that informal financial institutions like chit funds integrate saving and borrowing into a single mechanism, making them particularly suitable for low- and middle-income households. For individuals lacking collateral, formal credit histories, or regular income documentation, chit funds provide accessible liquidity. Expanding on this perspective, **Shankar (2012)** argued that chit funds are not limited to the financially excluded. Even individuals with access to banks may prefer chit funds due to behavioural barriers such as lack of financial literacy, distrust of formal institutions, or difficulty maintaining saving discipline. This suggests that behavioural preferences, rather than institutional access alone, significantly influence financial choices.

1.2.4 Demographic Variations in Saving Behaviour

While behavioural biases are universal, several studies indicate that their influence varies across demographic groups. **Dr. R. Rangarajan (2013)** examined saving behaviour across income, age, education and employment categories and found notable differences in financial attitudes. The study highlighted that women investors tend to prioritise safety and commitment over high returns, making chit funds particularly attractive to them. However, the study does not provide an in-depth behavioural analysis of women's financial decision-making, nor does it explore how age and income interact with behavioural biases such as loss aversion or social influence. This limitation highlights the

need for more disaggregated analysis focusing on behavioural motivations across gender, income groups, and age categories, particularly within a Kerala-specific context.

1.3 RESEARCH PROBLEM

Chit funds despite being a popular informal savings and credit mechanism, the empirical evidence is limited as we are focusing on the behavioural aspect. Most studies focus on the financial aspects of chit funds. Traditional economic theories support rational decision making but in real world scenario there are numerous factors like societal pressure, trust, psychological factors. Also variation in participation across different demographic groups (age, income, gender) are unexplored. This study seeks to bridge this gap by analysing the behavioural economic motivations behind chit fund participation in Kerala, providing insights into how psychological and social factors drive financial decisions in informal savings schemes. Additionally this study seeks to determine whether different age groups, income levels, gender participate for different reasons.

1.4 OBJECTIVES OF THE STUDY

● To examine the behavioural economic factors that drive individuals to participate in chit fund schemes in Kerala.

● To analyse behavioural motivations for chit fund participation across different age groups, income levels and gender.

1.5 METHODOLOGY OF THE STUDY

The study involves a systematic, descriptive and analytical approach using primary and secondary data. The objective of the study is to analyse how behavioural factors affect participation in chit funds in Kerala and the relevance of the scheme despite other financial services. Primary data were collected through a structured questionnaire consisting of multiple-choice questions to analyse demographic characteristics, participation motives, and behavioural factors. The population of the study includes individuals who are

currently participating in chit funds, and respondents were purposively selected to ensure that only active participants were included. A sample of 30 respondents was chosen based on the convenience sampling method due to the unavailability of a complete list of chit fund subscribers in the Ernakulam district, as well as time constraints and limited resources. Respondents were selected based on their accessibility and willingness to participate, which helped in collecting data efficiently. This study connects participation motive with behavioural economic factors like present bias, trust, mental accounting and loss behaviour. Data is analysed using percentage analysis method and Likert-scale mean values to derive relevant conclusions and findings. Tables, charts and graphs were utilised for the presentation of collected data in a concise and systematic manner. Respondents' privacy and anonymity were ensured during the entire research. Secondary data were collected from sources like books, articles and websites to provide theoretical and analytical support.

1.6 THEORETICAL FRAMEWORK

1.6.1 Behavioural Economics Theory

Behavioural economics challenges the classical assumption that individuals always act rationally in financial decision-making. It incorporates psychological insights to explain deviations from rational behaviour. Herbert Simon's concept of bounded rationality explains that individuals make decisions with limited information and cognitive ability, often relying on heuristics. Richard Thaler's theory of mental accounting highlights how people compartmentalise money, which may explain how chit funds function as informal savings accounts. The concept of present bias and hyperbolic discounting suggests that individuals favour immediate gratification, making chit funds attractive for offering periodic lump sum rewards. These frameworks are essential in understanding why individuals participate in chit funds, despite more secure institutional alternatives.

1.6.2 Prospect Theory

Developed by Daniel Kahneman and Amos Tversky (1979), Prospect Theory posits that individuals evaluate outcomes relative to a reference point and exhibit loss aversion -they

fear losses more than they value equivalent gains. In the context of chit funds, the possibility of receiving a large amount early in the cycle is valued highly, even if the overall return is uncertain or suboptimal. Participants may also overestimate the probability of early access to funds, driven by optimism bias, contributing to the sustained appeal of chit funds in Kerala.

1.6.3 Theory of Planned Behaviour (TPB)

Proposed by Icek Ajzen, the Theory of Planned Behaviour suggests that behaviour is guided by attitudes, subjective norms, and perceived behavioural control. Participation in chit funds may be influenced by a positive attitude toward the scheme, social pressure or cultural norms (especially in Kerala), and an individual's perceived ability to manage and contribute to the fund. This theory helps examine behavioural differences in participation across age groups, income levels, and gender.

1.6.4 Social Norms and Trust in Informal Networks

The popularity of chit funds in Kerala is also shaped by social norms, community reputation, and interpersonal trust. Unlike formal financial institutions, chit funds thrive on social capital and informal enforcement mechanisms. Behavioural responses such as herd behaviour where individuals follow the actions of peers and reciprocity, trusting others based on past interactions, play a key role in sustaining participation across demographic segments.

1.7 LIMITATIONS OF THE STUDY

- Self-reporting bias

Information collected through self-reported responses may be biased or inaccurate. This happens as a result of respondents forgetting specifics, misinterpreting questions, or giving answers that are more socially acceptable than truthful.

- Subjectivity of behavioural factors

Quantifying psychological and behavioural factors are challenging due to their subjective and context- dependent nature. For instance, concepts like trust or risk perception may be interpreted differently by each respondent based on personal experience.

- Age group representation bias

Chit fund participation was largely concentrated among a specific middle-aged group, making the findings less representative of other age groups. For example, since most participants were middle-aged, the study may not reflect the attitudes or participation behaviour of younger or elderly individuals.

- Limited Awareness and Financial Literacy Variation

Differences in respondents' awareness and financial literacy levels may have influenced their understanding of chit fund mechanisms, affecting the consistency and reliability of responses. Respondents have varying educational backgrounds, exposure to financial products, and access to financial information, which can lead to differences in comprehension and interpretation of chit fund–related questions.

CHAPTER 2:

CHIT FUNDS: AN OVERVIEW

2.1 INTRODUCTION

Chit fund is a traditional financial instrument widely popular in India especially Kerala. Chit funds integrate savings and credit allowing participants to pool in money consistently. It provides a lump sum through auctions or lotteries. Chit funds have become popular among people of all social and economic groups even after the expansion of financial institutions, stock market and other investment options. The popularity of chit funds cannot be explained by traditional financial theories because they assume that people always think rationally. Participation is influenced by behavioural economic factors like trust, social network, mental accounting, hyperbolic discounting, and prospect theory.

Chit funds are psychologically appealing as they enable participants to save regularly without defaults due to peer pressure and fear of losing future profits. Also, they provide easy access to money during emergencies. It is a financial arrangement based on mutual trust and confidence. They are deeply embedded in the society of Kerala. Chit funds are used to cover expenses like marriage, health, education and even business investments.

Diverse age groups, income groups and gender groups are included in the composition of participants which enables this topic relevant for academic study. This study aims to analyse behavioural factors that enable chit fund participation among various groups using primary data. The overview provides information on chit funds along with its history. It discusses the origin, evolution and growth of chit funds worldwide especially in India concentrating on Kerala specifically.

2.2 ORIGIN OF CHIT FUNDS

Chit funds are one of the oldest financial practices, with roots tracing back to thousands of years. They are believed to have originated in ancient India, with reference dating back to the Vedic period (around 1500-500 BC) where informal money lending practices existed among the community. The concept started in rural South India. Starting from the word Chit – Chit is a Malayalam term for a piece of paper. In Malayalam language they

use the term Kuri which is derived from the word ‘kurippu’ referring to a piece of writing or a script. The process starts with the supervisor writing the name of each subscriber on a piece of paper and then taking a lot thus deciding the prize winner. The folded or the rolled chits are put in a vessel containing some rice. Later both the rice and the chits are mixed well and then one person is called to pick one chit from the vessel. At the next instalment the person who got the reward in the previous turn is removed and this process continues till each of the subscribers receives the amount.

2.3 KERALA CONTEXT

Chit funds, locally known as ‘kuris’ or ‘chitties’ are a deeply ingrained, traditional and regulated saving-cum-borrowing financial system in Kerala. They act as a crucial, semi-formal financial mechanism for community savings and credit, famously utilised for personal needs, business, and major expenses. The state has a formalised, state-run entity, the Kerala State Financial Enterprises (KSFE), established in 1969 to provide secure alternatives to private, often risky, chit funds.

The chit fund is said to be an institution that has been handed down since ancient times. In 1887, William Logan, erstwhile Collector of the Malabar district of the madras presidency, described the custom of chit funds among friend groups in that region. Various reports in the 1930s point to the popularity of chit funds in current-day Kerala. In the 1930s and 1940s, between 1,000 and 10,000 formal funds functioned in the state every year.

Chit funds contribute to the value of financial markets in India particularly in Kerala. The present study entitled “A Study of chit Finance in Kerala with special emphasis on Kerala State Financial Enterprises Ltd.” examines the socio-economic aspects of Chit schemes run by the private Chit Funds, KSFE, co-operatives, and informal Chit Funds. The study is an attempt to find the reasons for the growing popularity of Chit Funds as savings cum borrowings avenues even in the presence of various other avenues of savings and borrowings and also to understand how the Chit subscribers utilise the funds.

The objectives of the present study are to examine the trends and pattern of growth of Chit Funds in the formal sector in Kerala, performance of KSFE as the only public sector Chit Fund company in India, preference for joining Chit Funds, estimate the cost and return on Chit Funds etc. is an indigenous financial instrument is complementary to modern financial techniques of savings and borrowings.

2.4 NATIONAL CONTEXT

In India, chit funds have been a part of everyday financial practices for centuries. Small groups of traders, artisans, and farming families shared savings in alternating cycles long before banks were widely used. Each round, the money raised would be given to one person, who would use it to pay for major expenses like weddings or crops. These groups played a quiet but vital role with bounded access to official credit. The system was maintained by mutual reliance that was passed down through time, without the need for paperwork.

Chit funds quickly proliferated in towns and smaller cities back then because regular banks barely reached people. Salaried workers leaned on them often, alongside shop owners and average earners - banks wouldn't lend to them easily. Still, without clear rules hanging over these systems, some ran poorly or turned into scams. People started worrying how safe their money really was.

After gaining independence, chit funds grew fast as people earned more, moved to cities, yet faced growing demands for cash - education costs, weddings, homes, starting tiny businesses. Indian authorities mediated with regulations meant to make these groups more visible because they were important economically but also raised risks. An important change happened in 1982 with the passage of the Chit Funds Act, a specific law that instituted instructions, safeguarded new members, and demanded transparency. Though national in scope, enforcement primarily happens through local governments, giving space for differences across regions to be reflected in how they run.

In India, people proceed to use chit funds because it is more challenging to wait than to act. They focus on quick access over long-term plans because they value quick money more than sustained gains. Neighbours and family members take part in the decision-making process because familiar circles feel safer. Many people are pushed toward what they know due to a shortage of knowledge about banking options. These organisations change into personal pledges, tied together more by a fear of embarrassment than by regulations. Members last even when expenses increase because quitting feels like a loss. Peer pressure subtly impacts decisions, shifting social bonds into monetary habits. The pattern is driven by culture, which combines small-money needs with habits. What seems to be savings frequently exhibits ritualistic behaviour. Its mind set, not math that keeps the system active.

2.5 INTERNATIONAL CONTEXT

Around the world, chit funds go by another name - ROSCAs - born in places where banks or lending services were hard to reach or didn't exist at all. Out of necessity, people built these models themselves, rooted in shared effort and belief in one another.

From long ago, early versions of chit systems showed up in China, called Hui. Traders, farmers, yet shopkeepers relied on them to gather money - sometimes for work, sometimes when trouble struck. Later, nearly identical setups popped up elsewhere: named Ko in Japan, Kye in Korea, while across African areas they went by Susu or Tontine. In many Latin American places, people knew them as Tanda. Though customs varied, one thing stayed much alike - the group paid in often, then took turns receiving the shared pile.

Looking at how people act when managing money, groups around the world often stick to chit-style setups not because of cash rewards alone, but due to deeper human tendencies. Membership trust mattered a lot; knowing others relied on you shaped participation more than profit ever did. Social rules quietly guided actions - people paid up simply because that was what everyone expected. No one wanted to face sideways glances or quiet judgment, so showing up with funds became routine. Slipping out risked being left out

later, which kept most folks returning month after month. These circles acted like personal contracts made without paper, locking in future choices through shared understanding. They gave structure to those struggling to save by turning willpower into something collective. Even far apart, cultures found similar results using these models again and again. What keeps them going isn’t logic - its habit, pride, guilt, and belonging. Behaviour shapes finance just as much as numbers do, sometimes more.

2.6 CONCLUSION

People often create chit funds, these have been around forever, when people don't have access to official banking. Coming from the idea that if banks won't help, you'll turn to people you know, who you can rely on for financial aid. Well-known in lots of countries and cultures, these funds seem to spring up wherever there's a gap in financial services, filling a need in the community.

They weren't set up by experts, but rather through a system of day-to-day survival. These circles can be effective because official banking often misses the people it’s supposed to help. Over time, they've changed and have always had two functions: saving money and borrowing it, but in the end it’s not really two separate things. People pool their money so that everyone can access a lump sum in rotation.

In place of legal contracts, chit funds run on unspoken rules that take cues from community life, and are as much a force in financial aid as any contract or formula. Since people who are involved know each other, they don't skip out on payments, because nobody wants the disapproval of their neighbours. Even if someone gets into financial difficulties, they're still likely to pay their share, rather than avoid being at odds with the community. The threat of gossip and disapproval is probably going to do it, not the threat of legal action.

People stick around these financial circles largely because there’s an expectation, not an official penalty, of being a participant, and routine is a huge player in making people want to join, it feels normal within the circles. Coming on board won't have to be thought out,

really, and it’s precisely the prospect of getting something back that helps make us rational. Banks may be spreading all over the globe but chit funds still find their way. Showing that money decisions aren’t always made on logic, and sometimes go beyond.

CHAPTER:3

BEHAVIOURAL AND ECONOMIC DYNAMICS OF CHIT FUND PARTICIPATION

3.1 INTRODUCTION

Chit Funds is a popular way of saving money and borrowing, where every member contributes a fixed amount of money every month and the collected amount is distributed to the members through a bidding or a lottery system. It helps people to have easy access to funds and to plan for their future savings.

This chapter deals with the analysis and interpretation of the data collected for the study on the behavioural economic analysis of chit fund participation. A questionnaire was prepared and the data was collected from 30 respondents. The analysis aims to understand the demographic profile of respondents, their reasons for joining chit funds, behavioural and motivational factors influencing participation, and their level of satisfaction towards it. Statistical tools like percentage analysis and Likert Scale Technique were used to present the findings.

3.2 DEMOGRAPHIC INFORMATION

Demographic information is statistical data used to describe the characteristics/attributes of a population. In this study variables like age, gender, income, place of residence and occupation have been incorporated. This inclusion provides a comprehensive study of the sample and helps understand the individual characteristics that influence their engagement with chit funds. Therefore, demographic information plays a crucial role in the interpretation of results, as it enables the comparison for diverse groups and the identification of patterns associated with social and economic behaviour.

3.2.1 AGE GROUP OF THE RESPONDENTS

Age is an important demographic factor influencing saving behaviour and participation in chit funds. People at different stages of life face different priorities such as education, health and family responsibilities etc. which affect their participation in chit funds. Hence, analysing the age group of the respondents helps us to understand which age group is involved more in chit funds and the reason behind it.

Table 1 - Age group of the respondents

AGE	NO. OF RESPONDENTS	PERCENTAGE
18-25	4	13.33
26-40	6	20.00
41-60	18	60.00
61 Years and above	2	6.67
TOTAL	**30**	**100.00**

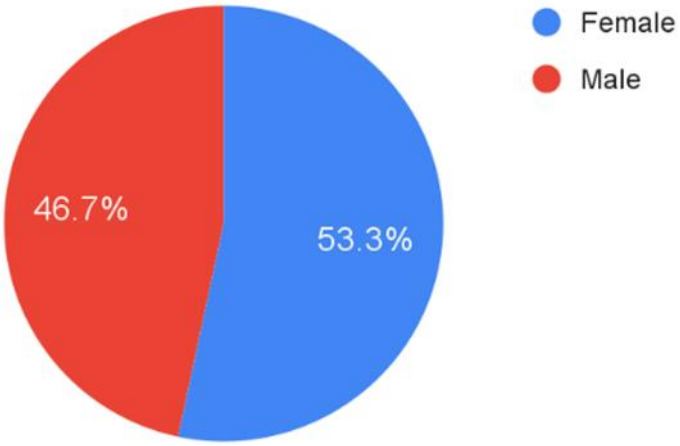
Source - Primary Data

Table 1 presents the age-wise distribution of respondents. It is observed that the majority of participants belong to the age group of 41-60 years, consisting 60 per cent of the total respondents, indicating active financial participation during this stage of life. This indicates that middle aged individuals participate more actively in chit funds because of their stable income and higher financial responsibility such as family expenses and future planning. The 26-40 years of age group contributes to the next 20 per cent, to save in a disciplined manner in spite of growing expenses. A significant proportion is contributed by the age group 18-25 which shows low participation in chit funds as most of the individuals in this age group are students or early job starters with limited or unstable income and they have less financial responsibility compared to the other age groups. The 61 years and above accounts for a very low involvement due to retirement and health expenses as this age group values financial security over potential returns. As a result age plays a very important role in influencing chit fund participation.

3.2.2 GENDER OF THE RESPONDENTS

Gender plays a key role in influencing money management and savings habits. Men and women have different responsibilities within the family, which affects their financial decision making.

Figure 1 - Gender of the respondents



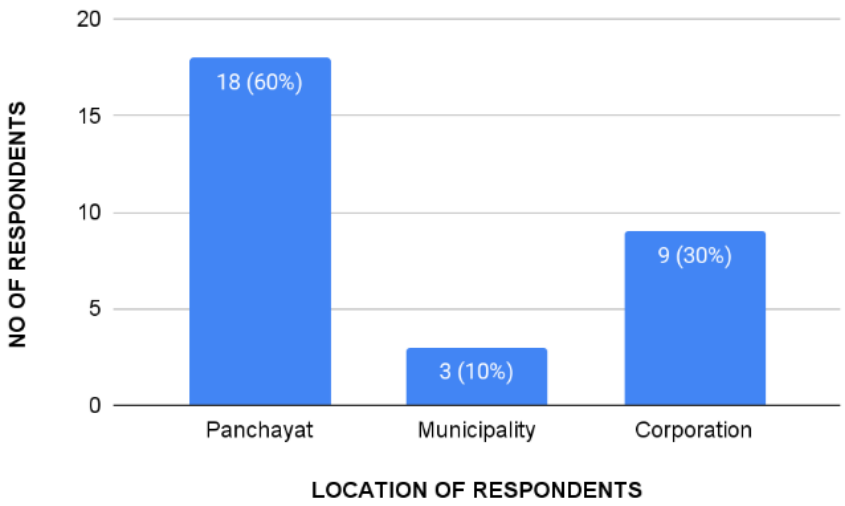
Source - Primary Data

The gender composition of respondents is illustrated in figure 1 with males contributing 46.7 per cent and females a slightly higher composition of 53.3 per cent. This indicates that women show strong saving habits and financial discipline compared to men as most of the women manage household budgeting and daily expenses. Both the genders equally participate in the chit funds which indicate that gender bias is not present. It is evident from the data that the effect of behavioural economic factors is present in both the genders.

3.2.3 LOCATION OF RESIDENCE OF THE RESPONDENTS

Location of Residence shapes the access to financial institutions, and participation in traditional savings schemes. People living at various locations have different lifestyles and income sources, influencing their participation in chit funds. Analysing this helps to understand how social networks contribute to chit fund participation.

Figure 2 - Location of Residence of the respondents



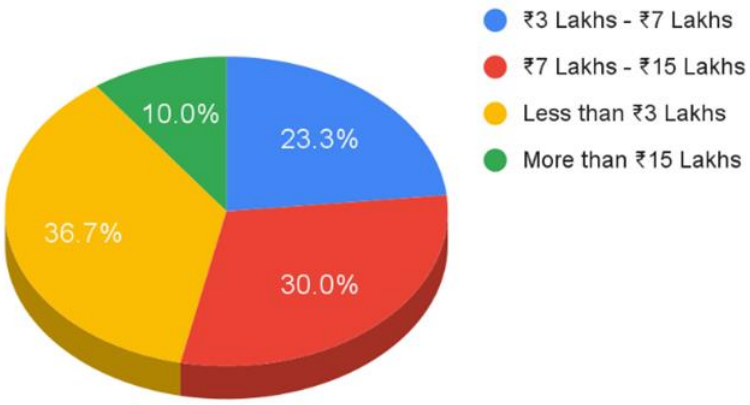
Source - Primary Data

Majority of the respondents, that is 60% of the population are from Panchayat, indicating that participation is more in rural areas when compared to urban areas. A notable proportion of the respondents belong to corporations, which shows a moderate level of participation in urban areas. Higher participation in rural areas is a result of stronger community bonding and lack of formal financial institutions. Dependence on informal financial institutions is also another reason behind this. When it comes to urban areas, people depend mostly on formal financial institutions and modern financial markets.

3.2.4 ANNUAL HOUSEHOLD INCOME OF THE RESPONDENTS

People's savings habits are closely connected with their income. Therefore income plays an important role in savings capacity and future planning. People with different incomes have different priorities in their life, affecting their participation in chit funds.

Figure 3 - Annual Household Income of the respondents



Source - Primary Data

Around 36.7 per cent belong to the lower income category which shows higher participation in households with annual income less than 3 lakhs. They participate more due to easy accessibility of liquidity and the monthly contributions are low. The middle income groups contribute an impressive proportion of 30 per cent, highlighting chit funds as a secondary savings and investment alternative along with formal financial instruments. The income holders of ₹3–7 lakhs show a moderate participation. This group focuses on building a balance between income and household expenses. The least participation is found among the income holders of more than 15 lakhs which indicates that they prefer formal and high-return investment options. Easy access to institutional finance and better financial awareness explains the lower participation.

Table 2 - Mean of Annual Household Income

INCOME GROUP	X	FREQUENCY	F x X
<3 Lakh	150000	11	1650000
3 - 7 Lakh	500000	7	3500000
7 - 15 Lakh	1100000	9	9900000
> 15 Lakh	2000000	3	6000000
TOTAL	3750000	30	21050000
MEAN	701666.6667		

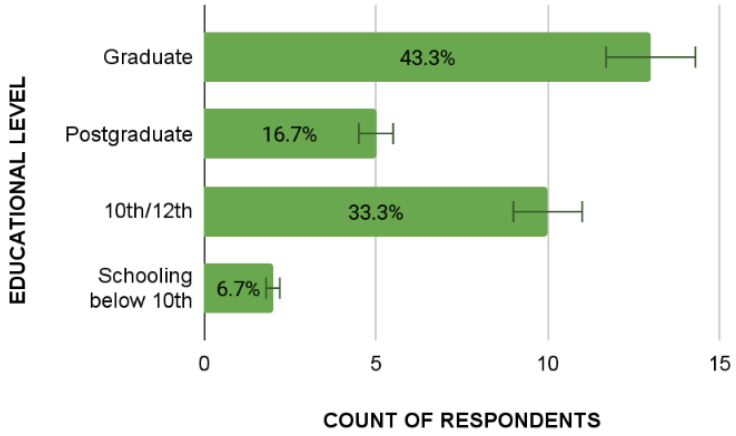
Source – Primary Data

Mean annual income of respondents is presented in table 2, estimated using weighted average method based on income class midpoints and frequencies, which is approximately ₹7.02 lakh. This shows that most of the respondents are from middle income group, indicating their preference for chit fund as a saving and borrowing option.

3.2.5 EDUCATIONAL QUALIFICATION OF THE RESPONDENTS

Education influences financial awareness, planning and risk management. Looking at the participation based on education helps us to analyse how knowledge level affects their participation in chit funds.

Figure 4 - Educational Qualification of the respondents



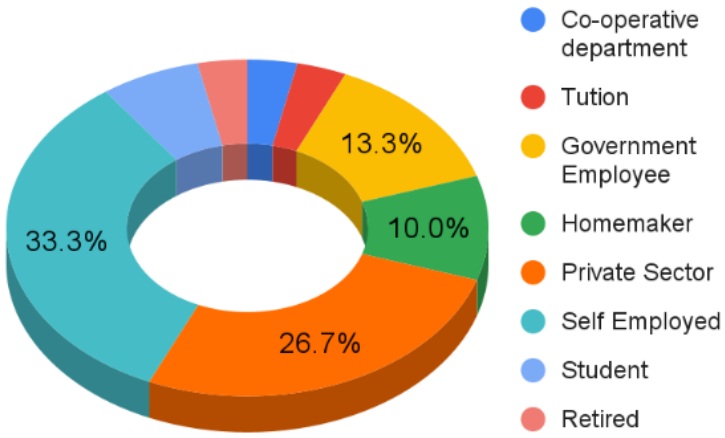
Source - Primary Data

Majority of the participants, 43.3% are found among graduates as individuals with higher education have better financial awareness and planned saving behaviour compared to the individuals with schooling below 10th which contributes to the least due to lack of literacy and awareness. Low income stability and fear of financial loss also significantly affect this.

3.2.6 OCCUPATION OF THE RESPONDENTS

A person's occupation influences their income stability and financial decision making. The difference in the occupation shows how they manage their savings. Analysing this response helps in understanding how employment status influences their participation in chit funds.

Figure 5 - Occupation of the respondents



Source - Primary Data

Higher participation of 33.3 per cent is found among the self – employed as a result of access to large amounts of funds and irregular income as well as lack of formal credit motivating them to participate in chit funds. Students and retired individuals contribute least. This shows that students lack stable income and financial independence while the retired individuals depend on fixed income and they prefer safety and liquidity.

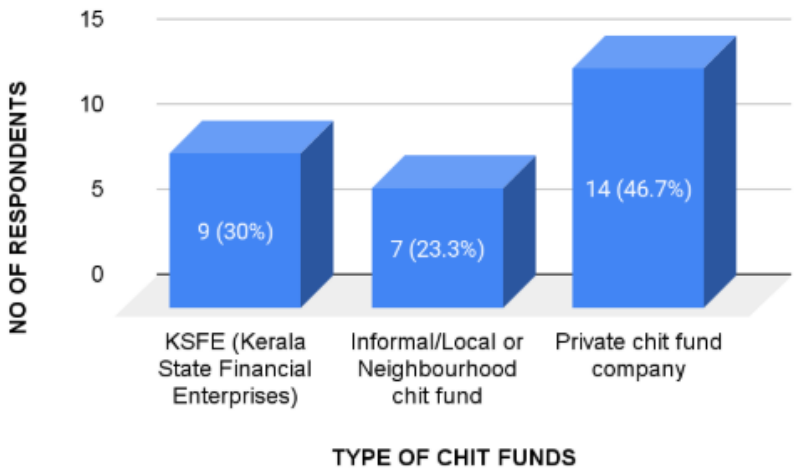
3.3 GENERAL CHIT FUND PARTICIPATION

General participation patterns of the individuals in chit funds helps us to understand how often people take part in chit funds, how long they have been involved, how much they usually contribute, and how actively they participate. These responses help to identify common participation patterns, saving habits, and how chit funds support day to day financial needs such as regular savings, emergency expenses, and future expenses. The analysis also shows how factors like age, income, and personal money habits influence people’s decision in participating in chit funds.

3.3.1 TYPES OF CHIT FUND

There are different types of chit funds to meet the needs of the people. The type of chit funds depend on the income level and the motive of joining, focusing on small savings and long term financial goals.

Figure 6 - Types of Chit Fund



Source - Primary Data

People majorly participate in Private Chit Fund companies due to flexibility, easy accessibility and attractive schemes. Apart from private chit fund participation, many respondents also participate in KSFE backed by the government due to trust in regulated schemes due to low risk and transparency. Informal/Local or Neighbourhood Chit Fund also attracts people because of their social trust and wider community connections associated with it. These schemes as mentioned operate within close social networks such as friends or colleagues, thus encouraging social commitment and peer influence.

3.3.2 DURATION OF THE CHIT FUNDS

Chit Funds are structured for different time periods, depending on the amount and purpose of joining. Some chit funds run for a shorter time period while others for a longer term.

Table 3 - Duration of Chit Funds people participate

DURATION OF CHIT FUNDS	NO OF RESPONDENTS	PERCENTAGE
Less than 1 year	3	10.00
1- 3 Years	18	60.00
3- 5 Years	5	16.67
More than 5 Years	4	13.33
TOTAL	**30**	**100**

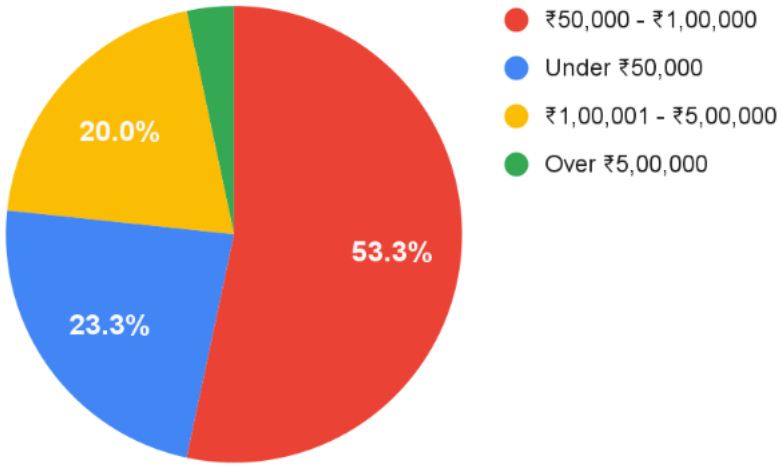
Source - Primary Data

Over 60 per cent of the people prefer to participate in chit funds for 1-3 years, which reflects present bias, risk aversion and manageable committable periods. Participation in chit fund schemes with a duration of 3–5 years and more than 5 years is comparatively low. This suggests that people are less willing to commit to long-term schemes due to concerns about financial stability, liquidity and future uncertainty. Very short-term chit fund schemes attracts relatively low participation as they offer limited financial benefits and lower returns compared to longer-duration schemes. While most of the participants prefer medium-term schemes for balance between liquidity and returns, both very short-term and long-term schemes show lower participation due to limited benefits and higher commitment risks respectively.

3.3.3 TYPICAL SIZE OF CHIT FUNDS

Chit funds are available in different sizes depending on the amount of money involved in the scheme. Some chit funds are small, while others involve larger amounts.

Figure 7 - The typical size of Chit Funds



Source - Primary Data

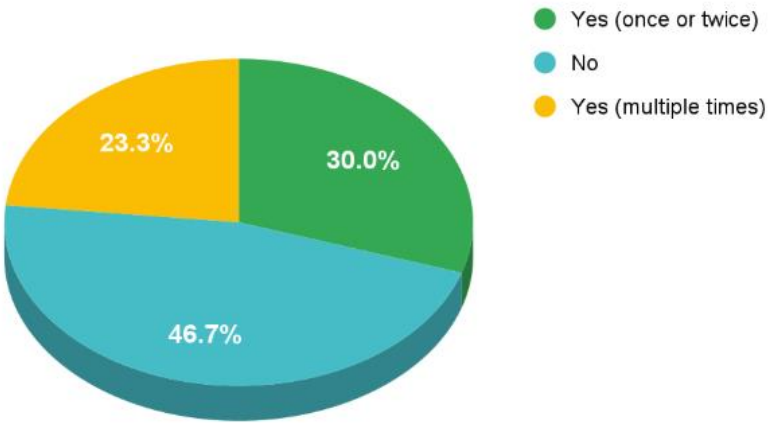
High participation is found in the chit funds with a size of small - middle value range comprising 53.3 per cent, showing mental budgeting and risk moderation, where participants choose amounts that they can afford within their income range without creating financial stress. Participation in high value ranges is comparatively low showing affordability concerns and risk perceptions, since the instalment amount is high and involves greater financial risk.

3.3.4 EARLY WITHDRAWAL OF PRIZE MONEY THROUGH BIDDING

Members of the chit fund have the option to receive the prize money before the completion of the period by bidding for it. This option is usually taken when participants have urgent

financial needs such as medical or family expenses. However, taking the prize money early means receiving a lower amount due to the discount offered in the bid.

Figure 8 - Early Withdrawal of Prize Money through Bidding



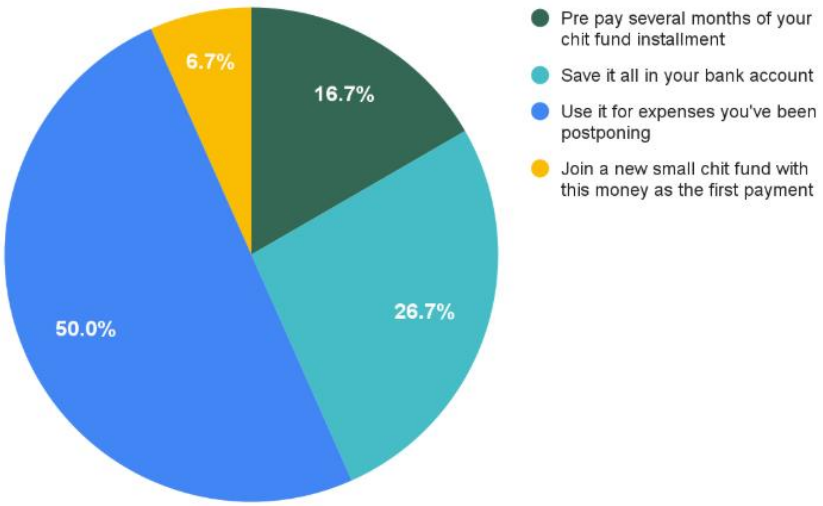
Source - Primary Data

A considerable group of respondents have never bid early, accounting 46.7 per cent showing self-control and preference for long term saving. On the other hand, the remaining respondents have opted to bid early, suggesting the need for immediate funds and a preference for liquidity. This highlights the role of present bias and emergency financial needs.

3.3.5 FINANCIAL DECISION - MAKING ON RECEIVING BONUS INCOME

People make different financial choices based on their needs when they receive extra income like bonus. Some of them prefer to save or invest the amount for future security, while others may use it to repay debts or meet immediate expenses.

Figure 9 - Financial Decision-Making on Receiving Bonus Income



Source - Primary Data

Fifty per cent of people majorly use the bonus income for the needs that they had been postponing to the future due to lack of funds, showing present bias where immediate needs are given importance. Another significant proportion of people plan to save this income in their bank account reflecting loss aversion while another group of participants would prepay several months of their chit fund instalment reflecting their commitment behaviour and planning, as they aim to reduce future financial obligations and ensure smooth participation. Very few participants prefer to join a new chit fund with this money due to risk perception and familiarity as people like to be in the existing, trusted chit funds rather than exploring a new option, showing familiarity bias.

3.4 BEHAVIOURAL AND PSYCHOLOGICAL FACTORS

Behavioural and psychological factors plays a vital role in influencing the respondents' participation in chit funds. Apart from economic benefits, human and psychological behaviours also influence the participants to make decisions. Factors like trust, social influence and habits play an important role in shaping their decision making.

3.4.1 REASON FOR JOINING CHIT FUNDS

A variety of reasons influence the participants to join chit funds. It includes developing a saving habit and to meet immediate and family expenses. The simple procedures and the mutual trust among members also influences their decision for joining.

Table 4 - Reason behind joining chit funds

REASON FOR JOINING CHIT FUNDS	NO OF RESPONDENTS	RANK
To save money regularly	19	1
Easy access to lump sum when needed	15	2
Lack of access to bank loans	4	5
Habit or family tradition	5	4
Peer or community influence	4	5
Better returns than bank	6	3

Source - Primary Data

Most of them participate in chit funds because it motivates them to maintain savings regularly by overcoming their immediate consumption behaviour. It acts as a commitment device which makes the chit funds more attractive to the public. Easy access to a lump sum of money also contributes to their participation which shows present bias. Another primary reason for joining is due to better returns than banks which show return seeking behaviour. Other reasons like family tradition and peer influence which comes under social factors also contribute to showing social trust among the community. Lack of access to bank loans also influences participation, increasing the reliance on informal financial systems.

3.4.2 EVALUATION OF BEHAVIOURAL FACTORS BEHIND CHIT FUND PARTICIPATION

Participation in chit funds is not influenced only by income or financial need, but also by various behavioural factors. The following statement analysed below shows the reason behind it. Evaluation of behavioural factors behind chit fund participation is rated and directly represented on the 5 point scale. The respondents' agreement of the statements is categorised as 'Strongly agree', 'Agree, 'Neutral', 'Disagree', and 'Strongly Disagree' which are respectively given 5, 4, 3, 2 and 1 scale. The average score was used to measure the level of agreement for each statement.

Table 5 - Evaluation of Behavioural Factors behind Chit Fund Participation

STATEMENTS	SCALE					TOTAL SCORE	AVERAGE SCORE
	1	2	3	4	5		
I was afraid of missing out on the opportunity to receive a large sum of money.	4	6	5	10	5	96	3.2
I joined because many people I know, including family and friends, were also participating.	2	2	6	14	6	110	3.67
I am confident that I can manage the chit fund payments and win the auction at the right time.	3	1	3	16	7	113	3.77
I view chit fund contributions as a separate 'pot of money' for a specific goal,	1	1	1	17	10	124	4.14

different from my regular savings.							
I trust chit funds because they have been a part of my community for a long time.	1	2	5	17	5	113	3.77

*Notes: Total Score: Sum of (no. of respondents * scale), Average Score: Total Score/ No. of responses.*

Source - Primary Data

Most of the respondents participated as they view chit funds as a separate pot of money for specific goals, with an average score of 4.14 reflecting mental accounting. An average score of 3.77 was recorded for the statement involving confidence in managing chit fund payments and auction timing along with trust in chit funds indicating community familiarity. Social influence from family and friends shows a significant average score highlighting the importance of social trust and herd behaviour. The fear of missing out on receiving a large sum have a lower influence in driving participation, due to uncertain returns.

3.4.3 AGREEMENT WITH THE BENEFITS OF CHIT FUNDS

Participants view the benefits of chit funds differently based on their personal experiences and financial needs. Some members strongly agree that chit funds help in building saving habits and providing financial support, while others may have a neutral or mixed opinion. Agreement with the benefits of chit funds is rated and directly represented on the 5 point scale. The respondents' agreement of the statements is categorised as 'Strongly agree', 'Agree, 'Neutral', 'Disagree', and 'Strongly Disagree' which are respectively given 5, 4, 3, 2 and 1 scale. The average score was used to measure the level of agreement for each statement.

Table 6 - Agreement with the Benefits of Chit Funds

STATEMENTS	SCALE					TOTAL SCORE	AVERAGE SCORE
	1	2	3	4	5		
I find it easier to save through a fixed monthly chit payment than to save independently in a bank.	1	4	8	11	6	107	3.57
The fear of losing my monthly instalment motivates me to pay on time.	3	3	6	17	1	100	3.34
I prefer chit funds because the process seems less complicated than bank procedures.	1	3	3	15	8	116	3.87
I believe chit funds are a safer investment than stocks or mutual funds.	3	1	5	14	7	111	3.7

*Notes: Total Score: Sum of (no. of respondents * scale), Average Score: Total Score/ No. of responses.*

Source - Primary Data

Highest average score of 3.87 was noted as participants prefer chit funds because the process seems less complicated than banks due to simpler procedures and easy accessibility which is absent in banks and other financial institutions compared to chit funds. Chit funds are perceived as a safer investment than stocks or mutual funds with an

average score of 3.7 highlighting the risk free nature of chit funds compared to other risky market instruments. This reflects risk aversion and familiarity bias.

A notable portion of participants find it easier to save in chit funds rather than banks indicating the significance of commitment mechanisms overcoming self-control due to compulsory payments. Fear of losing the instalments accounts for the lowest average score indicating a lower impact on timely payment.

3.4.4 PERCEPTION AND MOTIVATION BEHIND PARTICIPATION IN CHIT FUNDS

The decision to participate in chit funds is influenced not only by financial requirements but also by personal perceptions and motivations. Factors such as trust in the group, past experiences and mutual trust among the participants along with many other factors play a key role in shaping their participation. Perception and motivation behind participation in chit funds is rated and directly represented on the 5 point scale. The respondents' agreement of the statements is categorised as 'Strongly agree', 'Agree, 'Neutral', 'Disagree' and 'Strongly Disagree' which are respectively given 5, 4, 3, 2 and 1 scale.

Table 7 - Perception and Motivation behind Participation in Chit Funds

STATEMENTS	SCALE					TOTAL SCORE	AVERAGE SCORE
	1	2	3	4	5		
I would be very embarrassed if I could not make my monthly chit payment.	4	5	3	13	5	100	3.34
I sometimes bid for the prize money because the discount rate seems attractive that month.	10	3	7	10	0	77	2.57
I feel a sense of	4	2	7	12	5	102	3.4

belonging and community with the other members of my chit fund.							
I believe that the traditional "kuri" system is more suited to our culture than modern banking.	5	2	5	13	5	101	3.37
If a chit fund had a mobile app for payments and tracking, I would be more likely to join	2	2	5	15	6	111	3.7

*Notes: Total Score: Sum of (no. of respondents * scale), Average Score: Total Score/ No. of responses*.

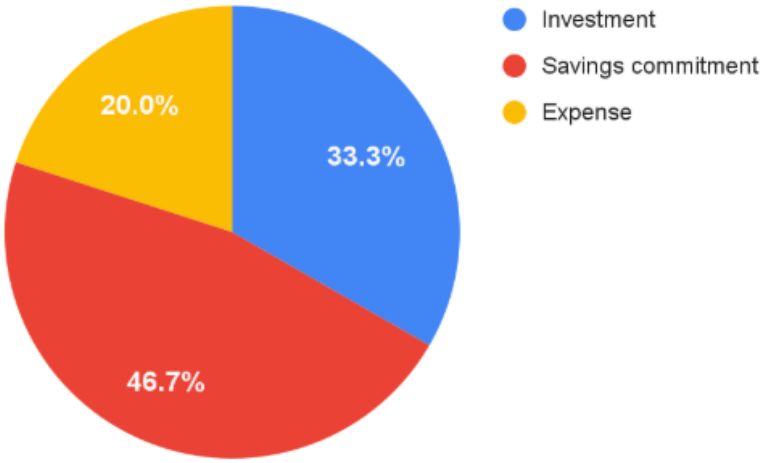
Source - Primary Data

The majority of the participants with the highest average score of 3.7 agree on using mobile apps for payment and tracking highlighting convenience and digital accessibility to induce participation. The next highest average score of 3.4 indicates a strong sense of belonging within the members encouraging their participation, showing the role of social connections and trust. A significant portion of people find the traditional ‘kuri’ system more suitable to the local culture showing familiarity bias and cultural trust. Another notable part of the population would be embarrassed if they fail to make monthly payments, highlighting the role of social pressure in financial decision making. Financial gains from bidding is a weak motive among participants as they perceive chit funds as a forced saving mechanism and no immediate financial need.

3.4.5 NATURE OF THE CHIT FUND PAYMENT

The nature of the chit fund payment shows the perception of the participants on how they view it - either as a savings, investment or as an expense, which primarily depends on their financial goals and planning.

Figure 10 - Nature of the Chit Fund Payment



Source - Primary Data

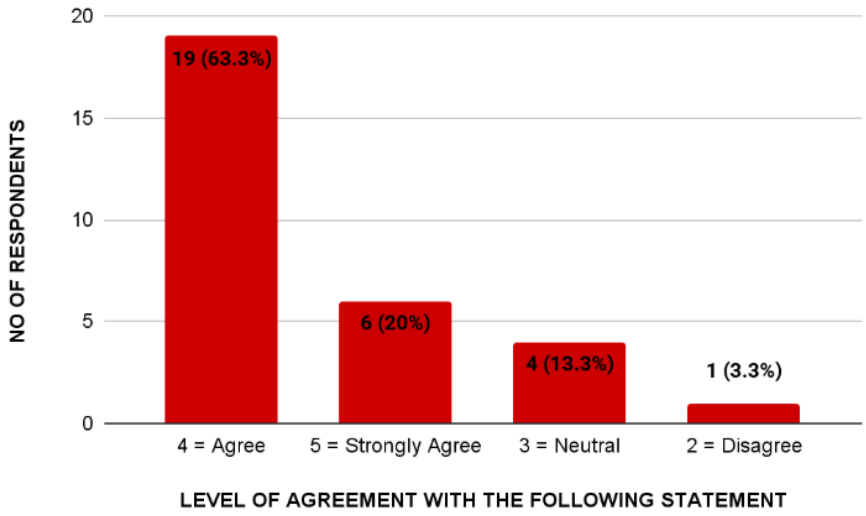
A considerable majority, 46.7 per cent of respondents view chit funds as a saving commitment indicating forced discipline to control spending habits and build financial security over time. Another significant number of participants contributing 33.3 per cent view it as an investment as they expect returns from bidding whereas a part of them perceive chit funds as an expense for a particular goal or for other needs highlighting mental accounting. None of the participants view chit funds as a loan instalment reflecting a strong disagreement of associating it with debt.

3.4.6 EFFECT OF CHIT FUNDS ON SAVING BEHAVIOUR OF PARTICIPANTS

Chit funds play a significant role in determining the saving habits of participants by encouraging them to set aside a fixed amount regularly. For most of the members, the compulsory monthly contribution helps in developing financial discipline and reduces the

unnecessary spending of money while others view it as an option to save more than they would on their own, meeting a way to manage future expenses.

Figure 11 - Effect of Chit Funds on Saving Behaviour of Participants



Source - Primary Data

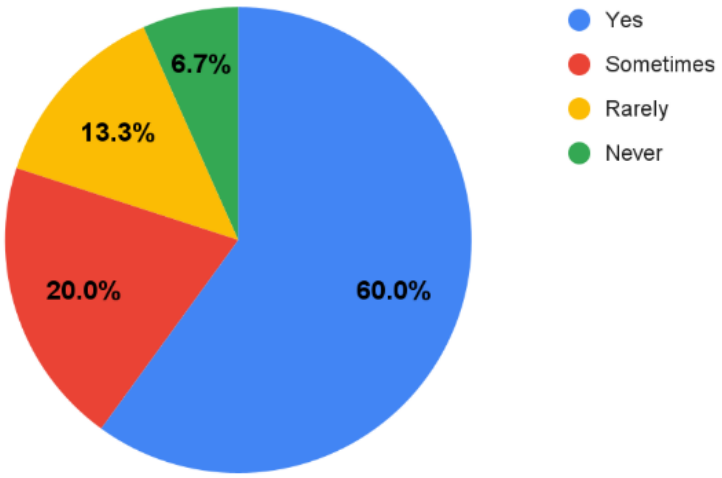
The majority of the people strongly agree to the statement regarding the effect of chit fund on saving behaviours of the participants as they perceive it as a saving mechanism showing the importance of financial discipline and commitment. A small group of participants remains neutral due to uncertainty while a very few participants disagree with the statement.

3.4.7 SOCIAL INFLUENCE ON CHIT FUND PARTICIPATION

Social community networks play a major role in influencing the participation of the people to chit funds. People are more likely to join when they see others in their close circle already participating in the chit fund. Familiar faces and shared experiences help create trust and confidence in joining the scheme.

This social connection reduces fear and increases willingness to participate.

Figure 12 - Social Influence on Chit Fund Participation



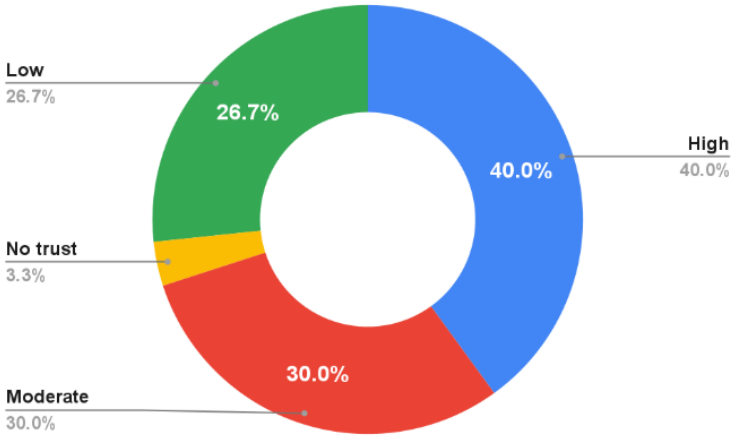
Source - Primary Data

Most of the respondents receive encouragement from their close social network accounting 60 per cent of the population, reflecting the importance of social influence and peer pressure while making financial decisions whereas a very few reported little to no influence as they are more influenced by their own personal financial planning than social pressure.

3.4.8 RATE OF TRUST IN CHIT FUND SYSTEM

Trust plays a crucial role in the functioning of chit funds, as participants regularly contribute money with the expectation of receiving the promised amount in return. Participants are more willing to join chit funds due to the systematic functioning and transparency of the system.

Figure 13 - Rate of Trust in Chit Fund System



Source - Primary Data

A high level of trust is found among 40 per cent of the participants showing familiarity bias and trust in the system which plays an important role in the participation. Some of the participants express a moderate level of confidence in the system compared to other smaller sections of population showing distrust in the system which acts as a psychological barrier to the participation and requires stronger transparency and awareness to improve the confidence of the participants.

3.5 PERCEPTIONS AND TRUST

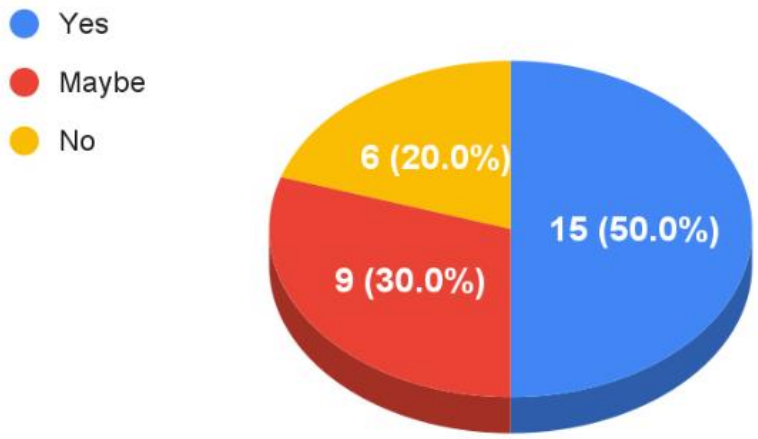
Perceptions and trust of the participants, reflects their level of awareness and confidence in the chit fund system. Trust shows how much people are willing to contribute their

money to the system while perceptions are based on personnel experiences and advice from community networks and the risk associated with the scheme. Analysis of these factors helps us to understand the behaviour of people in making financial decisions and to know whether they will be participating in the chit funds in the future.

3.5.1 WILLINGNESS TO RECOMMEND CHIT FUNDS

The willingness of the participants to recommend chit funds to others reflects their overall satisfaction and confidence in the system. This shows the level of confidence and the positive perception of the participant towards chit funds.

Figure 14 - Willingness to recommend Chit fund



Source - Primary Data

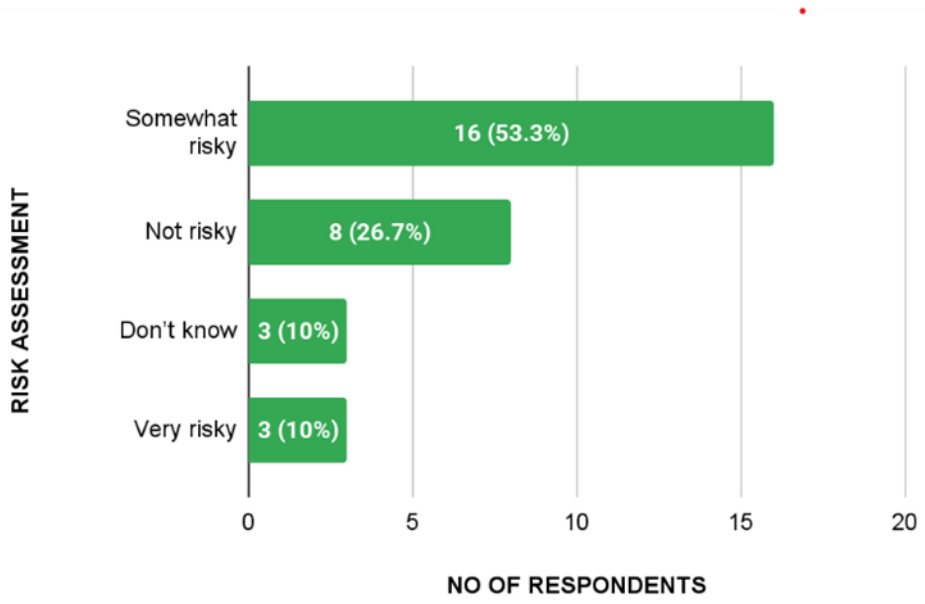
Fifty per cent of the respondents agree to recommend chit funds, showing positive response and their satisfaction in their experience with chit funds. This reflects a high level

of trust in the system while 30 per cent of participants are doubtful and uncertain to recommend the chit funds to others due to risk perception, management issues and mixed experience.

3.5.2 RISK ASSESSMENT OF CHIT FUNDS

Participants usually evaluate the level of risk before joining a chit fund, as their money is committed for a fixed period. But every financial decision involves some level of uncertainty, and chit fund participation is no exception. The level of risk involved depends on the factors such as trust within the system and past experiences.

Figure 15 - Risk Assessment of Chit Funds



Source - Primary Data

Majority of the participants opine that participating in the chit fund is somewhat risky showing potential loss and uncertainty due to their informal nature whereas a part of the population opine chit funds to be safe highlighting trust and social familiarity. Few respondents are unsure about the level of risk involved showing lack of information. As a

result, it cannot be perceived as risk free because the participants are aware of financial uncertainty, but they still participate due to immediate financial needs and peer influence.

3.5.3 ALTERNATIVE FINANCIAL INSTRUMENTS USED ALONG WITH CHIT FUNDS

Along with chit funds people also use other financial instruments to meet their different financial goals like the bank savings accounts, fixed deposits, gold, mutual funds, real estate or informal savings group.

Table 8 - Alternative Financial Instruments Used Along with Chit Funds

ALTERNATIVE FINANCIAL INSTRUMENTS	NO OF RESPONDENTS	RANK
Bank savings account	25	1
Fixed Deposits	20	2
Gold	19	3
Real Estate	8	5
Mutual Funds/ Stock market	11	4
SHG's	4	6
Other	1	7

Source - Primary Data

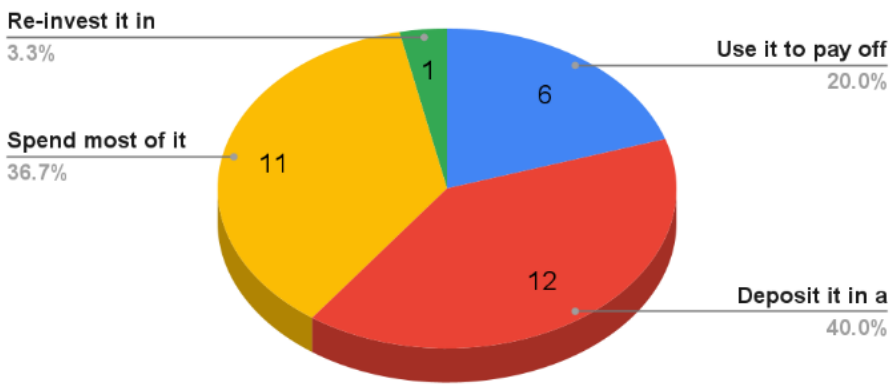
Participants majorly rely on formal saving options like bank savings accounts and fixed deposits which indicates the preference for secure financial instruments. Gold is also used by a significant section of participants reflecting traditional savings behaviour and the increasing value of gold as most people prefer it as a safe haven asset, acting as a hedge against inflation. Others prefer to invest in mutual funds/stock market showing future

oriented thinking and growing exposure to modern investment options while a very few participants prefer to invest in SHG and other options like Post office saving schemes, Public Provident Fund and National Pension System showing limited preference for long term savings schemes. Therefore, most of the participants depend on other investment options apart from chit funds showing diversification behaviour, risk balancing and financial literacy.

3.5.4 BEHAVIOURAL RESPONSE TO EARLY RECEIPT OF CHIT FUND PRIZE MONEY

People will be having different plans to use the early received prize money than the maturity period. It shows how the participants manage to meet their expenses.

Figure 16 - Behavioural Response to Early Receipt of Chit Fund Prize Money



Source - Primary Data

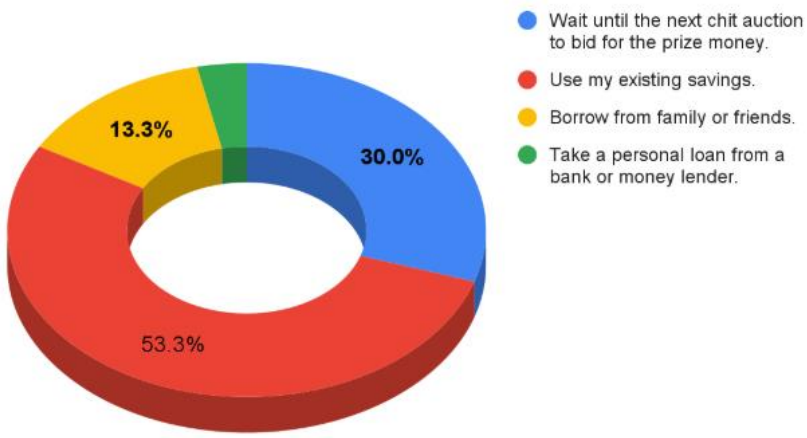
Forty per cent of the population prefers to deposit the money in a bank savings account showing that the participants prefer financial security and risk aversion. Another significant group of respondents comprising 36.7 per cent prefer to spend most of the

amount for immediate expenses highlighting present oriented behaviour and financial pressure where people prefer using the money for personnel consumption and immediate needs rather than savings or investment. Another group of participants prefer to use it to pay off other high cost debts reflecting rational decision making, financial management and awareness whereas very few participants plan to reinvest in other financial products suggesting present bias as they prefer immediate rewards over long term investment.

3.5.5 BEHAVIOURAL CHOICES DURING FINANCIAL EMERGENCIES BETWEEN CHIT FUND INSTALMENTS

When financial emergencies arise between chit fund instalments, people are forced to take the available option with limited choices. This decision reflects their emotional and social pressure.

Figure 17 - Behavioural Choices during Financial Emergencies between Chit Fund Instalments



Source - Primary Data

A considerable majority, 53.3 per cent of respondents largely rely on using existing savings to meet urgent financial needs, indicating a desire to avoid debt and shows rational financial behaviour. Another major group is willing to wait until the next chit auction to bid for the prize money showing trust and patience in chit funds whereas a small part of participants prefers to borrow from family or friends showing strong community network and preference for informal support without any complex procedures. Very few opt for loans from banks or money lenders to avoid interests and risk.

3.6 CONCLUSION

The analysis highlights the several behavioural and perceptual factors influencing the participation of individuals in chit funds, revealing it as a unique financial instrument that bridges a gap between saving and borrowings.

Age and gender pattern shows that middle aged participants (41-60) are the most active, with females participating slightly more than males, reflecting financial responsibility and social role. Income also plays a significant role as low and middle income groups depend more as it acts as a practical and accessible tool compared to the moral hazard risk associated with the other financial institutions

Many respondents view chit funds as a saving option showing the people's preference to disciplined saving habits. Participants find it easy to manage chit funds compared to other formal financial institutions which require collateral and time. Most of the respondents are confident toward chit funds due to their trust and social influence towards it. Family and friends act as an important factor in influencing the respondents' financial decision making.

The response also shows the respondents planning on how to use the prize money or to manage urgent needs, balancing between emergency needs and future security. The study also revealed the participants' use of alternative saving options showing that they do not depend on a single method to manage their expenses, highlighting diversification behaviour and risk management.

As a result, the chit fund stands as a testament to Kerala's financial literacy, offering a pragmatic, high-yield alternative compared to the formal financial institution.

CHAPTER:4

FINDINGS, RECOMMENDATIONS AND CONCLUSION

4.1 INTRODUCTION

Chit funds is a traditional and popular savings and borrowing scheme in India where a group of individuals contributes a fixed amount of money into a common fund at regular intervals. Chit funds encourage disciplined saving while also providing access to a lump sum of money without the need for formal banking procedures, collateral, or lengthy approval processes. It has a history that spans over a thousand years and has evolved from informal savings systems into regulated, financial instruments, which are at the heart of India's economic scene. Chit Funds is seen as a hybrid financial product which has the features of both, savings and credit.

The prime objectives of the study are: 1) To examine the behavioural economic factors that drive individuals to participate in chit fund schemes in Kerala. 2) To analyse the behavioural motivations for chit fund participation across different age groups, income levels and gender.

This chapter provides major findings derived from 30 respondents regarding their participation in chit funds. The findings are based on demographic information, general participation, behavioural and psychological factors, perceptions and trust. Suitable recommendations are provided in this chapter based on the finding for better utilisation of chit fund schemes and to improve financial awareness.

4.2 FINDINGS

The findings of the study are derived from the analysis of primary data collected from 30 respondents and are presented in line with the stated objectives. The study examines the behavioural economic factors influencing chit fund participation and analyses variations across age, income, and gender. The findings highlight saving behaviour, trust, risk perception, and social influence that shape participation in Kerala's traditional chit fund system.

- **Behavioural factors**

The study indicates that participation is influenced by behavioural, psychological and social factors rather than economic factors. About 46.7 per cent of the respondents perceive chit funds as a disciplined savings tool that reduce impulsive spending. Most of the respondents view chit funds as a separate pot of money for a specific goal such as emergencies, marriage and education with a high average score of 4.14 highlighting mental accounting. Easy access to lump sum is also a key factor that drive participation confirming the presence of present bias, where immediate financial needs are prioritised over long term returns. Social pressure is a significant factor inducing participation as missing a payment is associated with feeling of embarrassment among participants. It is evident that trust and social factors influence participation. Nearly 60 per cent of the respondents reported that family members and friends encouraged them to participate reflecting herd behaviour and social proof. About 40 per cent of the respondents have a high level of trust in chit funds which demonstrates familiarity bias as individuals prefer traditional and community based systems despite risks. Although many participants view chit funds as somewhat risky they continue to participate due to easy accessibility, trust in community-based systems and familiarity. Overall chit funds are informal savings mechanism that functions mainly due to the influence of behaviour factors than rational profit maximisation. Psychological comfort, social belonging and trust together explains the popularity of chit funds in Kerala.

- **Demographic patterns**

The study shows that participation is highest among middle income groups (41-60 years), accounting for 60 per cent of respondents. This suggests chit funds serve as an important financial tool during peak responsibility periods involving family expenses like health and marriage. Younger participants (18-25 years) show low level of participation due to unstable low income and reduced financial responsibility. Female participation (53.3 per cent) is slightly higher than male participation (46.7 per cent) indicating higher saving motivation in women especially in managing household expenses. However, overall participation is nearly equal among both the genders indicating that behavioural factors affect everyone equally without bias.

- **Income, occupation and financial behaviour**

Chit fund participation largely includes low and middle groups. About 36.7 per cent of respondents belong to households earning below ₹3 lakhs annually, while 30 per cent fall within the middle-income category. The calculated mean annual income of respondents is approximately ₹7.02 lakhs, indicating that chit funds mainly attract middle-income households seeking secondary savings alongside other financial services like banking. Self-employed individuals show the highest participation (33.3 per cent), largely due to irregular income and limited access to formal banking. Chit funds provide access to liquidity and savings. Higher-income groups show lower participation, as they prefer formal investment instruments such as mutual funds and real estate.

- **Financial Decision-Making**

Most participants prefer medium-duration chit schemes (1–3 years) accounting 60 per cent, showing risk aversion and preference for manageable financial commitments. High-value chits attract fewer participants due to affordability concerns. Respondents largely use prize money either for immediate expenses (50 percent) or deposit it in bank accounts (40 per cent), demonstrating a balance between immediate consumption and ensuring financial security through savings. During emergencies, most participants rely on existing savings rather than borrowing, showing cautious financial behaviour. Participants also diversify their financial investments by combining chit funds with bank savings, fixed deposits, and gold, indicating awareness of financial planning.

4.3 Recommendations

1. Stronger monitoring of informal chit fund companies should be ensured to reduce risk and improve transparency

2. Financial awareness campaigns to be conducted especially in rural areas about safe chit funds and financial practices.

3. Encouraging the introduction of mobile apps for payment and tracking highlighting convenience and digital accessibility to induce participation

4. Linking informal chit funds with formal banking systems to reduce risk and for the regulation of the schemes.

5. Chit funds should not be treated as the only financial instrument, but as a supplementary saving option. Greater importance should be given to secure long-term investments such as PPF, NPS, fixed deposits, and insurance combining it with chit funds to promote balanced financial planning

6. Implementing flexible and affordable schemes that can help low income households in meeting their financial needs.

7. Encouraging chit fund participation among youth can motivate them to develop disciplined saving habits at an early stage of life.

8. Introduction of government backed chit fund schemes like KSFE to increase transparency and reduce risk and fraudulence.

4.4 Conclusion

Chit funds hold a significant position in Kerala's financial system as a savings and borrowing mechanism. The factors affecting participation are not only economic but psychological and behavioural factors like present bias, social trust, loss aversion and mental accounting. It can be concluded that chit funds act as a forced commitment device promoting savings behaviour. Chit funds are still a relevant financial instrument in the modern time despite other modern tools like stock market, mutual funds etc. due to easy accessibility and influence of strong community networks. Chit funds are deeply rooted in Kerala as a traditional, long standing financial practice among other formal institutions. By improving financial awareness, regulation and transparency, Chit funds can be

categorised as a reliable and better yielding financial option for individuals across different demographic groups. This study shows how traditional savings practices like chit funds can continue to exist along with modern banking systems, in helping people manage their finances. Overall, the analysis brings out the social and economic importance of chit funds and describes why they continue to remain popular among people in Kerala even in today's modern financial environment.

APPENDIX

A Behavioural Economic Analysis of Chit Fund Participation: A Study on Popularity of Kerala's Traditional Savings Scheme

Section 1 : Demographic Information

1. Age Group

   a. 18-25 years

   b. 26-40 years

   c. 41-60 years

   d. 61 years and above

2. Gender

   a. Male

   b. Female

   c. Prefer not to say

3. Location of Residence

   a. Panchayat

   b. Municipality

   c. Corporation

4. Annual Household Income

   a. Less than ₹3 Lakhs

b. ₹3 Lakhs - ₹7 Lakhs

c. ₹7 Lakhs - ₹15 Lakhs

d. More than ₹15 Lakhs

5. Educational Qualification

a. Schooling Below 10^{th}

b. $10^{th}/12^{th}$

c. Graduate

d. Postgraduate

6. Occupation

a. Student

b. Self-employed

c. Private Sector Employee

d. Government Employee

e. Homemaker

f. Retired

g. Other (please specify):

Section 2 : General Chit Fund Participation

7. Have you ever participated in a chit fund scheme?

a. Yes

b. No

8. Which type of chit fund do you participate in?

a. KSFE (Kerala State Financial Enterprises)

b. Private chit fund company

c. Informal/Local or neighbourhood chit fund

9. How long have you been participating in chit funds?

a. Less than 1 year

b. 1-3 years

c. 3-5 years

d. More than 5 years

10. What is the typical size (value) of the chit funds you join?

a. Under ₹50,000

b. ₹50,000 - ₹1,00,000

c. ₹1,00,001 - ₹5,00,000

d. Over ₹5,00,000

11. How long are the chit schemes you usually join?

a. Less than 1 year (10-20 months)

b. 2-3 years (25-40 months)

c. More than 3 years

12. Have you ever taken the prize money early by bidding for it?

    a. Yes (multiple times)

    b. Yes (once or twice)

    c. No (never)

13. Imagine you received a ₹10,000 bonus. Would you be more likely to?

    a. Save it all in your bank account

    b. Use it for expenses you've been postponing

    c. Pre-pay several months of your chit fund instalment

    d. Join a new, small chit fund with this money as the first payment

Section 3 : Behavioural and Psychological Factors

14. Main reason for joining the chit fund (choose all that apply)

    a. To save money regularly

    b. Easy access to lump sum when needed

    c. Lack of access to bank loans

    d. Habit or family tradition

    e. Peer or community influence

    f. Better returns than banks

    g. Others (please specify)

15. How would you rate the following statements in relation to your decision to join a chit fund?

1 = Strongly disagree

2 = Disagree

3 = Neutral

4 = Agree

5 = Strongly agree

a. I was afraid of missing out on the opportunity to receive a large sum of money.

b. I joined because many people I know, including family and friends, were also participating.

c. I am confident that I can manage the chit fund payments and win the auction at the right time.

d. I view chit fund contributions as a separate ‘pot of money’ for a specific goal, different from my regular savings.

e. I trust chit funds because they have been a part of my community for a long time.

16. For the following statements, please indicate your level of agreement.

1 = Strongly disagree

2 = Disagree

3 = Neutral

4 = Agree

5 = Strongly agree

a. I find it easier to save through a fixed monthly chit payment than to save independently in a bank.

b. The fear of losing my monthly instalment motivates me to pay on time.

c. I prefer chit funds because the process seems less complicated than bank procedures.

d. I believe chit funds are a safer investment than stocks or mutual funds.

17. Please indicate your level of agreement with the following statements.

a. 1 = Strongly disagree

b. 2 = Disagree

c. 3 = Neutral

d. 4 = Agree

e. 5 = Strongly agree

a. I would be very embarrassed if I could not make my monthly chit payment.

b. I sometimes bid for the chit prize money even if I don't have an urgent need, just because the discount rate seems attractive that month.

c. I feel a sense of belonging and community with the other members of my chit fund.

d. I believe that the traditional "kuri" system is more suited to our culture than modern banking.

e. If a chit fund had a mobile app for payments and tracking, I would be more likely to join.

18. How do you primarily view your chit fund contribution?

a. Expense

b. Savings commitment

c. Investment

d. Loan Instalment

19. To what extent do you agree with the following statement:

“Chit Funds help me save more money than I would save on my own.”

a. 1 = Strongly disagree

b. 2 = Disagree

c. 3= Neutral

d. 4 = Agree

e. 5 = Strongly Agree

20. Do family or friends encourage you to join chit funds?

a. Yes

b. Sometimes

c. Rarely

d. Never

21. How would you rate your trust in the chit fund system you participate in?

a. High

b. Moderate

c. Low

d. No Trust

Section 4: Perceptions and Trust

22. Would you recommend chit funds to others?

a. Yes

b. No

c. Maybe

23. How would you rate the risk involved in chit funds compared to other financial options?

a. Very risky
b. Somewhat risky
c. Not risky
d. Don’t know

24. Apart from chit funds, what other savings/investment options do you use? (Select all apply):

a. Bank savings account
b. Fixed deposits
c. Gold
d. Real estate
e. Mutual funds / Stock market
f. SHGs (Self-help groups)
g. Others

25. Imagine you won the chit prize money in the 3rd month of a 20-month chit. What would you most likely do with the lump sum?

a. Spend most of it on an immediate need or desire.
b. Deposit it in a bank savings account.
c. Use it to pay off other high-cost debts (e.g., credit card, personal loan).
d. Re-invest it in another financial product (e.g., another chit, gold, mutual fund).

26. If you needed money urgently between two chit fund instalments, what would you most likely do?

a. Wait until the next chit auction to bid for the prize money.
b. Take a personal loan from a bank or money lender.

c. Borrow from family or friends

d. Use my existing savings.

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