

Perceptions of Households and Their Level of Satisfaction Towards Chit Funds

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Abstract: *Chit funds (also known as Roscas) is popular among households and small businesses in many developing countries. It has high popularity among communities with limited access to formal channels of finance. Chits serve multiple economic and social functions. Chit funds business in India is in practices for more than 120 years and it has enjoyed traditional practices among wealthy families across India. Chit Funds are saving devices through pooling of money by a group of persons by way of periodical instalments of fixed amount paid over a fixed period of time under inter-se agreement that each member of the group is entitled to the pooled amount.*

Index Terms: Chit fund, Saving and Investment.

I INTRODUCTION

A chit fund is a kind of savings scheme practiced in India. A chit fund company means a company managing, conducting or supervising, as foreman, agent or in any other capacity, chits as defined in section 2(b) of the Chit Fund Act 1982. According to section 2(b) of the Chit Fund Act 1982, "chit means a transaction whether called chit, chit fund, chitty, kuris or by any other name by or under which a person enters into an agreement with a specified number of persons that every one of them shall subscribe a certain sum of money (or a certain quantity of grain instead) by way of periodical installments over a definite period and that each such subscriber shall, in his turn, as determined by lot or by auction or by tender or in such other manner as may be specified in the chit agreement, be entitled to the price amount.

1.1 Statement of Problem

Many of the consumers, particularly low-income households purchase consumer goods, hence it will be worthwhile if a separate study is carried out to examine the Perceptions of Households and their Level of Satisfaction towards Chit Funds or not particularly low-income households purchase consumer durables by taking consumer loans at a high interest rate and they are not able to repay the loan, even the interest amount. Therefore, the chit fund practices have become the habit of investment for the households. Based on the knowledge gained from this theoretical discussion conducts of this study is considered as rational.

1.2 Objective of The Study

- To evaluate the household's perceptions towards chit funds operations
- To measure the level of satisfaction towards chit funds operations

1.3 Research Methodology

1.3.1 Study Area

The study is conducted in the Coimbatore city. It has been observed from various studies and reports that South India is the highest Chit Fund Investors in India. Thus, the study is focused on one of the prominent South Indian city, Coimbatore, which is also called as Business Capital of Tamil Nadu.

1.3.2 Sampling Size

The sample size for the study is confined with 120 respondents.

1.3.3 Tools Used

- Garrett Ranking
- KMO and BARTLETT'S test was applied to measure the sample adequacy
- Rotated Component Matrix

1.4 Limitations of the study

The study is focused on Coimbatore city only, time and energy factors restricted researcher to limit the geographical area of the study.

II REVIEW OF LITERATURE

Lakshmana Rao (2011) stated in his study on „Analysis of investors“ perceptions towards mutual fund schemes (with reference to awareness and adoption of personal and family considerations)” that Investors between 31 to 40 years of age have highest awareness and adoption of different mutual fund schemes. It is also concluded that there is an association between respondent’s residential status and awareness of balanced fund and debt fund schemes.

Rao (2011) conducted study on “Analysis of individual investor behavior

towards Mutual Fund Scheme”. In this study author presents mutual fund investor awareness and adoption of different schemes with educational level. The research findings showed that with increased level of education is linked with greater risk tolerance. This tends to support the hypothesis developed in previous researches i.e. positive relationship exists between educational attainment and financial risk tolerance.

III ANALYSIS AND INTERPRETATION

TABLE: 1
HOUSEHOLDS LEVEL OF PERCEPTION
TOWARDS CHIT FUND OPERATIONS

Nature	Excellent	Good	Fair	Poor	Very Poor	Sum	Mean	Rank
Popularity of the Chit Fund /Foreman	30 (25.00)	51 (42.50)	29 (24.17)	8 (6.67)	2 (1.67)	459	3.83	1
Fixation of Amount Ceiling	10 (8.33)	54 (45.00)	37 (30.83)	16 (13.33)	3 (2.50)	412	3.43	6
Duration fixed for Instalment payment	20 (16.67)	31 (25.83)	52 (43.33)	14 (11.67)	3 (2.50)	411	3.43	6
Bonus /Discounts Offering	22 (18.33)	35 (29.17)	28 (23.33)	26 (21.67)	9 (7.50)	395	3.29	11
Safeguard the Interests of Subscribers	20 (16.67)	29 (24.17)	44 (36.67)	20 (16.67)	7 (5.83)	395	3.29	11
Loan Provision	21 (17.50)	45 (37.50)	30 (25.00)	16 (13.33)	8 (6.67)	415	3.46	5
Procedures Followed for Discounting of Chit Funds in time of Emergency	25 (20.83)	40 (33.33)	40 (33.33)	12 (10.00)	3 (2.50)	432	3.60	2
Loan Provision against Chit Value(s)	14 (11.67)	45 (37.50)	37 (30.83)	21 (17.50)	3 (2.50)	406	3.38	9
Effective Management of Entire Chit Fund by the Group	19 (15.83)	36 (30.00)	41 (34.17)	20 (16.67)	4 (3.33)	406	3.38	9
Effective Maintances of Chit Records	23 (19.17)	43 (35.83)	34 (28.33)	16 (13.33)	4 (3.33)	425	3.54	4
Amount Held as Security or Operational Charges by Foreman (expected least cost)	24 (20.00)	45 (37.50)	32 (26.67)	13 (10.83)	6 (5.00)	428	3.57	3
Money- Spinning Practices	22 (18.33)	35 (29.17)	40 (33.33)	16 (13.33)	7 (5.83)	409	3.41	8
Interest charges on Loan Borrowed (During Chit Fund in Operations)	8 (6.67)	38 (31.67)	43 (35.83)	20 (16.67)	11 (9.17)	372	3.10	14
Others	15 (12.50)	43 (35.83)	28 (23.33)	26 (21.67)	8 (6.67)	391	3.26	13

Source: Primary Data

TABLE: 2
KMO AND BARTLETT'S TEST
HOUSEHOLDS LEVEL OF PERCEPTION
TOWARDS CHIT FUND OPERATIONS

Kaiser-Meyer-Olkin Measure of Sampling Adequacy	.801
Bartlett's Test of Sphericity Approx. Chi-Square	297.533
DF	91

Sig	.000
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Level of Significance: 5 per cent

Interpretation

The Kaiser-Mayer-Olkin test is based on the correlation and partial correlation of the variables. Out of fourteen variables considered it has been found that the value of test statistic is 0.801, which means the factor analysis for the identified variables is found to be appropriate to the data. The Bartlett's test of sphericity chi-square (297.533) is used to test whether the correlation matrix is an identity matrix. Here the significant value is 0.000 which indicates that there exists significant relationship among the variables. The measure of KMO test and value of Bartlett's test indicate that the present data is useful for factor analysis. The next step in the process is to decide about the number of factors to be derived. The rule of thumb is applied to choose the number of factors for which "Eigen values" with greater than unity is taken by using principal component analysis (PCA) method. The component matrix so formed is further rotated orthogonally using varimax rotation algorithm.

TABLE: 3
COMMUNALITIES
HOUSEHOLDS LEVEL OF PERCEPTION
TOWARDS CHIT FUND OPERATIONS

Variables	Initial	Extraction
Popularity of the Chit Fund /Foreman	1.000	.689
Fixation of Amount Ceiling	1.000	.714
Duration fixed for Instalment payment	1.000	.672
Bonus /Discounts Offering	1.000	.759
Safeguard the Interests of Subscribers	1.000	.705
Loan Provision	1.000	.654
Procedures Followed for Discounting of Chit Funds in time of Emergency	1.000	.865
Loan Provision against Chit Value(s)	1.000	.716
Effective Management of Entire Chit Fund by the Group	1.000	.659
Effective Maintances of Chit Records	1.000	.867
Amount Held as Security or Operational Charges by Foreman (expected least cost)	1.000	.788
Money- Spinning Practices	1.000	.761
Interest charges on Loan Borrowed (During Chit Fund in Operations)	1.000	.674
Others	1.000	.806

Interpretation

Applying SPSS, the principal component analysis (PCA) was carried out to explore the underlying factors associated with 14 items. It has been found that the factor analyzed using the principal component analysis (PCA) with Varimax rotation maximum range .867 was and minimum range was .654.

TABLE: 4
ROTATED COMPONENT MATRIX
HOUSEHOLDS LEVEL OF PERCEPTION
TOWARDS CHIT FUND OPERATIONS

Variables	Factors				
	Excel lent	Good	Fair	Poor	Very Poor
X ₁ - Popularity of the Chit Fund /Foreman	-	.805	.871	-	-
X ₂ - Fixation of Amount Ceiling	-	-	-	-	.715
X ₃ -Duration fixed for Instalment payment	-	-	-	.745	-
X ₄ -Bonus /Discounts Offering	-	.746	-	-	-
X ₅ -Safeguard the Interests of Subscribers	-	.711	-	-	-
X ₆ -Loan Provision	.719	-	-	-	-
X ₇ -Procedures Followed for Discounting of Chit Funds in time of Emergency	-	-	.712	-	-
X ₈ -Loan Provision against Chit Value(s)	-	-	.762	-	-
X ₉ -Effective Management of Entire Chit Fund by the Group	-	-	-	.753	-
X ₁₀ -Effective Maintance of Chit Records	-	.654	-	-	-
X ₁₁ -Amount Held as Security or Operational Charges by Foreman (expected least cost)	.652	-	-	-	-
X ₁₂ -Money- Spinning Practices	-	-	-	-	.631
X ₁₃ -Interest charges on Loan Borrowed (During Chit Fund in Operations)	.674	-	-	-	-
X ₁₄ -Others	-	-	-	-	.877
Eigen value	1.59	1.42	1.41	1.28	1.13
% of Variance	18.62	16.69	16.49	15.03	13.28
Cumulative	18.62	35.31	51.80	66.84	80.11

Level of Significance: 5 per cent

Interpretation

The total variance accounted for, by all the five factors with Eigen value greater than one is 80.11 per cent and remaining variance is explained (19.89) by other variables. Three variables: loan provision, amount held as security or operational charges by foreman (expected least cost) and interest charges on loan borrowed (during chit fund in operations) are grouped as first factor and it accounts for 18.62 per cent of the total variance. Four variables: popularity of the chit fund /foreman, bonus /discounts offering, safeguard the interests of subscribers and effective Maintance of chit records constitutes the second factor and it accounts for 16.69 per cent of the total variance. Three variables: popularity of the chit fund /foreman, procedures followed for discounting of chit funds in time of emergency and loan provision against chit value(s) represent the third factor and it accounts for 16.49 per cent of the total variance. Two variables: duration fixed for instalment payment and effective management of entire chit fund by the group fourth establish the factor and it accounts for 15.03 per cent. Three variables: fixation of amount ceiling, money- spinning practices and others constitute the fifth factor and it accounts for 13.28 per cent of the total variance.

TABLE: 5
SUMMARY OF ROTATION FACTOR ANALYSIS & CRONBACH'S ALPHA HOUSEHOLDS LEVEL OF PERCEPTION TOWARDS CHIT FUND OPERATIONS

Factors	Variables included in the factors	Cronbach's Alpha
Excellent	loan provision, amount held as security or operational charges by foreman (expected least cost) and interest charges on loan borrowed (during chit fund in operations)	.829
Good	popularity of the chit fund /foreman, bonus /discounts offering, safeguard the interests of subscribers and effective Maintance of chit records	.753
Fair	popularity of the chit fund /foreman, procedures followed for discounting of chit funds in time of emergency and loan provision against chit value(s)	.704
Poor	duration fixed for instalment payment and effective management of entire chit fund by the group	.675
Very Poor	fixation of amount ceiling, money- spinning practices and others	.662

Source: Computed from Primary Data

Interpretation

The computed Reliability analysis Cronbach's Alpha values of (.829, .753, .704, .675 and .662) indicate significant correlation between the variables tested and a good internal consistency.

IV FINDINGS

- The household's perceptions towards chit funds operations is being ranked by the investors on the basis of the popularity of the chit fund and the Procedures followed for discounting of chit fund in the time of emergency.
- The level of satisfaction towards chit funds operations is being ranked on the basis of amount held as Security or operational charges by foreman and effective maintains of chit fund records.

SUGGESTIONS

Suggestions of the study undertaken are;

The formalities to open chit fund accounts are very simple. Hence the investors especially the middle class investors are very much interested in investing in the regulated chit funds. Hence its necessary for proper documentation of the chit fund operator's records and the procedures followed in discounting of chit fund.

CONCLUSION

As Chit Fund is considered to be the attractive investment option practices need high discipline of financial management and regulations. Hence its necessary for the investors to make their security for both their money and personal information to be kept safe. Therefore, it helps the investors to invest more in the chit funds.

V REFERENCES

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