

Behavioral Factors Affecting Investments in Unauthorized Deposit Taking Institutions in Sri Lanka

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Abstract

In the today's turbulent business context, the decision of investment depends on several underlying behavioural elements of the investors. This study aimed at identifying the behavioural factors that influence the decision to invest in unauthorised deposit taking entities. Both quantitative and qualitative methods were used. The sample of 425 investors of unauthorized deposit taking institutions were responded to a structured questionnaire. Qualitative data were collected by one to one interviews. And data was analysed using multiple regression technique. The initial model consisted with five variables namely, attractiveness of returns to investors, risk preference of investors, use of personal referrals, use of financial information and firm reputation. The results of the model show that attractiveness of returns to investors, risk preference of investors and use of personal referrals have a significant influence over the behaviour of individual investors to perform investments in unauthorised deposit taking entities in the Sri Lankan context. However, it is found that both use of financial information and firm reputation do not have a significant influence over the decision to invest in unauthorised deposit taking entities.

Keywords: attractiveness of returns to investors, risk preference of investors, use of personal referrals

1. Introduction

Sri Lankan financial sector has faced difficult economic situations due to financial turmoils created with the collapse of several financial companies in the country over the history. Some institutions, which are not legally authorized to accept deposits from the public, are raising monies from the public in various forms stating either "investments" or "credits" or "borrowings" or "placements", and interest is paid thereon. If any scheme has the characteristics given in the above definition, mobilization of funds under such a scheme amounts to acceptance of deposits irrespective of any terminology used. Most unauthorized organizations, which call themselves as "banks" or "finance companies" or use similar titles often offer very high rates of interest to attract funds from the public.