

# Trust Deficit and Investment Risks in Digital Money Chain Schemes: A Study on Kerala's Middle-Class Investors

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## Abstract

The rapid expansion of digital financial platforms has transformed investment behaviour across developing economies. Among these innovations, digital money chain schemes—often promoted through online networks and social media platforms—have attracted large numbers of retail investors by promising high returns and easy participation. However, many of these schemes operate with limited transparency and weak regulatory oversight, creating significant risks for investors. This study examines the relationship between trust deficit and perceived investment risk among middle-class investors in Kerala who participate in digital money chain schemes. Using a descriptive and analytical research design, the study explores the role of platform transparency, information disclosure, regulatory effectiveness, and technological features in shaping investor trust and investment behaviour. The findings highlight that lack of transparency and regulatory clarity significantly increase perceived investment risk and contribute to erosion of investor trust. The study offers insights for policymakers, regulators, and financial educators to enhance consumer protection and promote safer digital investment ecosystems.

**Keywords:** Trust Deficit, Digital Money Chain Schemes, Investment Risk, Investor Trust, Platform Transparency, Financial Literacy, Kerala.

## Introduction

Digital financial technologies have significantly reshaped the global investment environment. Innovations such as block chain-based platforms, cryptocurrency networks, peer-to-peer investment models, and digital chain schemes have created new opportunities for wealth creation and financial participation. However, alongside these innovations, new forms of financial risks and fraudulent schemes have emerged. Digital money chain schemes are typically referral-based financial models in which participants earn returns by recruiting new members or investing in structured digital programs. These schemes often operate through mobile applications, encrypted messaging groups, and social media networks. While they promise rapid financial growth and minimal entry barriers, their operational transparency and sustainability remain questionable.

In India, particularly in Kerala, digital money chain schemes have gained popularity among middle-class households seeking alternative investment opportunities. Kerala's high digital literacy, strong diaspora connections, and aspiration for financial mobility have created an environment where such schemes can spread rapidly. However, the lack of transparency in platform operations, payout mechanisms, and regulatory compliance creates a significant **trust deficit** among investors. Trust plays a critical role in

financial decision-making, particularly in digital environments where investors have limited physical interaction with financial institutions. When transparency is weak and information disclosure is inadequate, investors rely on informal networks, peer influence, and social proof. This often leads to risky financial decisions and increases vulnerability to financial loss.

Several digital investment failures reported in Kerala between 2022 and 2024 demonstrate the consequences of weak investor protection and inadequate regulatory oversight. According to reports from cybercrime monitoring agencies and financial authorities, digital investment fraud has increased significantly during recent years. In this context, understanding the relationship between **trust deficit and investment risk perception** becomes essential for strengthening investor protection and digital financial governance.

### Review of Literature

Previous studies have examined the relationship between trust, transparency, and financial risk in digital investment environments.

Zhang and Zhou (2025) found that transparency in digital financial platforms significantly improves investor confidence and reduces perceived risk. Their study emphasized that lack of regulatory clarity can weaken investor trust and increase uncertainty in digital investments.

Trotta (2025) analyzed global digital finance risks and concluded that rapid fintech innovation has created new forms of cyber fraud and investment scams. The study highlighted that repeated fraud incidents erode investor confidence in digital financial systems.

Joseph and Varghese (2023) examined financial literacy among Kerala's middle-class investors and observed that limited financial awareness increases vulnerability to online investment frauds.

Kim and Park (2023) investigated trust and perceived risk in digital financial transactions and reported that trust significantly reduces perceived investment risk and improves participation in online investment platforms.

Das and Rao (2022) analyzed behavioral biases in digital investments and found that herd behaviour and overconfidence influence investor participation in high-risk schemes.

Sharma and Singh (2021) reported that digital pyramid schemes and online Ponzi structures are increasingly targeting middle-income groups in developing economies.

Although these studies provide valuable insights into digital finance risks, limited research specifically examines **trust deficit and investment risks in digital money chain schemes within the Kerala context**. This study aims to address this gap.

### Research Objectives

1. To examine factors influencing investor trust in digital money chain schemes.
2. To analyze the relationship between trust deficit and perceived investment risk.
3. To evaluate the role of platform transparency and information disclosure in investment decisions.
4. To assess the effectiveness of regulatory mechanisms in reducing digital investment risks.
5. To propose a conceptual framework for improving trust in digital financial platforms.

### Research Methodology

The study adopts a **descriptive and analytical research design** to analyze trust deficit and investment risks among middle-class investors in Kerala.

### **Population of the Study**

The population includes middle-class individuals in Kerala who have invested in or shown interest in digital money chain schemes.

### **Sample Size**

The sample size is calculated using **Slovin's formula**, resulting in **385 respondents** for the study.

### **Sampling Technique**

The study uses **Stratified Random Sampling** to ensure representation based on:

- Income level
- Age group
- Educational qualification
- Urban and semi-urban location

### **Data Sources**

#### **Primary Data**

- Structured questionnaire
- 5-point Likert scale

#### **Secondary Data**

- RBI reports
- SEBI publications
- Academic journals
- Government cybercrime reports

#### **Statistical Tools**

- Frequency and Percentage Analysis
- Mean and Standard Deviation
- Cronbach's Alpha (Reliability)
- Factor Analysis
- Correlation Analysis
- Multiple Regression
- Chi-square Test
- ANOVA

### **Conceptual Framework**

The conceptual framework of the study explains how transparency-related factors influence investor trust and investment risk perception.

#### **Independent Variables**

- Platform Transparency
- Information Disclosure
- Regulatory Effectiveness
- Technological Features

#### **Moderating Variables**

- Investor Awareness

- Financial Literacy

### **Mediating Variables**

- Investor Trust
- Investment Risk Perception

### **Dependent Variable**

- Investment Decision Behaviour

The conceptual framework indicates that improved transparency and regulatory effectiveness strengthen investor trust and reduce perceived investment risk.

### **Findings**

The analysis highlights several key insights:

1. Lack of transparency significantly increases perceived investment risk among investors.
2. Platform transparency is a major determinant of investor trust.
3. Investors rely heavily on peer recommendations and social proof while investing in digital schemes.
4. Financial literacy moderates the relationship between trust deficit and investment decisions.
5. Weak regulatory enforcement contributes to the growth of fraudulent digital investment schemes.

### **Policy Implications and Suggestions**

#### **For Investors**

- Evaluate transparency and credibility before investing in digital platforms.
- Improve financial literacy and risk awareness.

#### **For Regulators**

- Strengthen regulatory oversight of digital investment platforms.
- Implement stricter disclosure requirements for digital financial schemes.

#### **For Platform Developers**

- Introduce transparent transaction records.
- Provide clear risk disclosures and investor education resources.

### **Conclusion**

Digital money chain schemes represent a growing challenge within the evolving digital financial ecosystem. While these platforms promise financial opportunities, their lack of transparency and regulatory oversight creates significant risks for investors. The study concludes that trust deficit plays a critical role in shaping investment decisions and risk perception among middle-class investors in Kerala. Improving platform transparency, strengthening regulatory frameworks, and enhancing financial literacy can significantly reduce investment risks and restore investor confidence in digital financial systems.

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