Chapter -VII

Summary and Suggestions
CHAPTER PROFILE

This is the seventh and the last chapter of the presentation. The chapter presents a summary of the findings and observations, and the suggestions emanating from the study.
A. SUMMARY

- Financial system helps to increase output by moving the economic system towards the existing production frontier. This is done by transforming a given total amount of wealth into more productive forms. A financial system helps increase the volume of investment also. The financial system facilitates transfer of funds, through financial institutions, financial markets, financial instruments and services. Financial institutions act as mobilisers and depositories of savings, and as purveyors of credit or finance. They also provide various financial services to the community. They act as intermediaries between savers and investors. All banks and many non-banking institutions also act as intermediaries, and are called as non-banking financial intermediaries (NBFI). Financial institutions are divided into the banking and non-banking ones.

- The financial intermediaries perform the function of transferring funds from persons with excess money to persons who require extra funds to fulfill their expenditure or investment plans. They are responsible for channeling savings to investment and consumption purposes and without them many of the funds in the economy would remain idle. Economic growth is thus closely associated with the expansion and increased sophistication of financial activity. Financial intermediaries such as the commercial banks and public financial institutions including Life Insurance Corporation have been transmitting funds from the investors to the industries. But the Non-Banking financial intermediaries in the private sector have created major impact for innovation during the last two decades in the post independence era.

- The commercial banks were started and they occupied the prime role in Indian financial system. In India Commercial Banks are broadly categorized into Scheduled Commercial Banks and Unscheduled Commercial Banks. During 1969 and 1980 some banks were nationalized on public interest and during later stages the Indian Banking industry has been opened to all and it led to universal banking.
practices in the Indian financial system. NBFCs are financial intermediaries engaged primarily in the business of accepting deposits, delivering credit. NBFCs supplement the role of banking sector in meeting the increasing financial needs of the corporate sector, delivering credit to the unorganized sectors to small local borrowers.

- The NBFCs play an important role in channelising these savings into investments. NBFCs have made great strides in recent years and are meeting the diverse financial needs of the economy. They have greatly influenced the direction of savings and investments. They have broadened and diversified the range of products and services offered by a financial sector. They are being recognized as complementary to the banking sector due to their customer-oriented services, simplified procedures, and attractive rates of returns on deposits, flexibility and timeliness in meeting the credit needs of specified sectors.

- The working and operation of NBFCs are regulated by the Reserve Bank of India (RBI) within the framework of the Reserve Bank of India Act, 1934 (chapter III B) and the directions issued by it under the Act. Under the Act, it is mandatory for a NBFC to get itself registered with the RBI as a deposit taking company. This registration authorizes it to conduct its business as an NBFC.

- The types of NBFCs registered with RBI are Equipment leasing company, Hire Purchase Company, Loan Company and Investment Company. Equipment leasing company is any financial institution whose principal business is that of leasing equipments or financing of such an activity. Hire-purchase Company is any financial intermediary whose principal business relates to hire purchase transactions or financing of such transactions. Loan Company means any financial institution whose principal business is that of providing finance, whether by making loans or advances or otherwise for any activity other than its own (excluding any equipment leasing or hire-purchase finance activity). Investment
Company is any financial intermediary whose principal business is that of buying and selling of securities.

- While most institutions of India’s non-banking financial sector are also found in other countries financial systems, two of them, MBFCs and MNBCs, better known as Nidhis and Chit Fund Companies, respectively, are genuinely Indian institutions and rarely found outside South Asia. Inside India, they are most popular in TamilNadu and Kerala, from where they have originated. A Nidhi does business only with its equity share holders. Much like a cooperative bank, a Nidhi accepts deposits and makes loans, which are mostly secured by jewelry. A chit fund, in Kerala also known as kuri, is a particular form of a rotating savings and credit association (ROSCA),

- NBFCs are essential to a country’s financial system. NBFCs provide services not well suited for banks. Banks primarily provide payment services and liquidity. Since banks have to maintain the value of deposits, they tend to have mostly debt-type, as opposed to equity-type, items on both side of their balance sheet. In contrast, NBFCs can finance riskier borrowers and intermediate equity claims. They thus offer a wider range of risks to investors, which encourage investment and savings, and create a market for risks. Second, NBFCs unbundled services that are bundled within a universal bank, and thus foster competition, which benefits customers.

- NBFCs are particularly important for facilitating storage of value and intermediation of risk. Moreover, like other financial institutions, they are sensitive to runs and herding behaviour. If the financial sector does not work smoothly, high transaction costs, lack of confidence and short-sightedness of economic actors, as well as a culture of corruption may result.

- India soon after independence launched on a programme of rapid industrialization which needed long term investment in capital assets. Industries which were
essential and required huge investments were setup by the Government of India in
the public sector. The government also extended guarantees whenever loan was
obtained by the public sector industries from the foreign agencies. Public financial
institutions were established for instance, the Industrial Development Bank of
India and the statutory Finance Corporations. The development banks have been
providing large and medium industrial concerns direct finance assistance and
small and medium industrial concerns through the State Financial Institutions.

With the inadequacy of the financial institutions and the services provided by
them companies were set up in the private sector under the Companies Act whose
main business was to do non-banking financial business. To set up a non-banking
financial company is a very attractive proposition. There is no gestation period.
The regulatory frame work for NBFCs had been in existence since 1963 under the
provisions of Chapter III B of the Reserve Bank of India Act and the Directions
issued. The regulation of the deposit acceptance activities of the Non-Banking
Finance Companies (NBFCs) was initiated in the sixties with a view to safeguard
depositors’ interests and to ensure that the NBFCs function on healthy lines.
Accordingly, in 1963, a new Chapter III B was inserted in the Reserve Bank of
India Act, 1934 to effectively supervise, control and regulate the deposit
acceptance activities of these institutions.

The provisions of Chapter III B of the RBI Act, 1934, however, conferred very
limited powers on the Reserve Bank. The legislative intent was aimed at
moderating the deposit mobilization of NBFCs and thereby to providing indirect
protection to depositors by linking the quantum of deposit acceptance to Net
Owned Fund. While NBFCs accepting public deposits will be subject to the entire
gamut of regulations, those not accepting public deposits would be regulated in a
limited manner. Therefore, the regulatory attention was focused primarily on
NBFCs accepting public deposits. In respect of new NBFCs (which are
incorporated on or after April 20, 1999 and which seek registration with the
Reserve Bank), the minimum NOF has been raised to Rs.2 crore.
The regulatory attention has been utilized to enable intensified surveillance of NBFCs accepting public deposits. The Reserve Bank issued directions relating to acceptance of public deposits prescribing, (a) the quantum of public deposits (b) the period of deposits which should not be less than 12 months and should not exceed 60 months, (c) the rate of interest payable on such deposits subject to a ceiling of 16 per cent, (d) the brokerage fees and other expenses amounting to a maximum of 2 per cent and 0.5 per cent of the deposits, respectively, and, (e) the contents of the application forms as well as the advertisement for soliciting deposits.

The companies which accept public deposits are required to comply with all the prudential norms on income recognition, asset classification, accounting standards, provisioning for bad debts, capital adequacy, credit/investment concentration norms, etc. The capital adequacy ratio has been fixed at 12 per cent and above, in accordance with the eligibility criteria for accepting public deposits. The credit and investment concentration norms have been fixed at 15 per cent and 25 per cent of the owned funds, depending on whether the exposure is to a single borrower to a borrower group, while the totality of loans and investment has been subject to a ceiling of 25 per cent and 40 per cent of the owned fund, respectively, depending on whether the exposure is to a single party or to an industry group.

The NBFCs not accepting public deposits would be regulated in a limited manner. Such companies have been exempted from the regulations on interest rates, period as well as the ceiling on quantum of borrowings. The ceiling on the aforesaid factors for NBFCs accepting public deposits is expected to act as a benchmark for NBFCs not accepting public deposits. However, prudential norms having a bearing on the disclosure of true and fair picture of their financial health have been made applicable to ensure transparency in the financial statements to these companies, excepting those relating to capital adequacy and credit concentration norms.
Operations of chit funds companies are governed under the Chit Fund Act, 1982, which is administered by State Governments. However, their deposit taking activities are regulated by the Reserve Bank and they are allowed to accept a miniscule amount of deposits, i.e., up to 25 per cent of their NOF from the public and up to 15 per cent from their share holders. The concerns regarding the protection of depositors’ interests are further minimized to a great extent as the chit fund companies usually accept deposits from their chit subscribers.

There are thousands of market players in the NBFCS sector. About 41,000 NBFCS were there during 1997. The majority of the NBFCS are private limited companies and rest being public limited companies. The number of NBFCS which regularly report or submit returns to the RBI/NHB is quite small in relation to the total number of companies at work. The important reasons for the growth of non banking finance companies are a) they provide tailor made services to the clients; b) there has been a comprehensive regulation of NBFCS; c) customers have been attracted to them by their higher level of customer-orientation, lesser ore/post sanction requirements, simplicity and speed of their services; d) the monetary and credit policies have created an unsatisfied fringe of borrowers, i.e. the borrowers outside the purview of banks. The NBFCS have catered to the needs of this section of borrowers; e) the relatively higher interest rates offered by them on deposits have attracted a large number of small savers towards them.

Along with measures for enhancing the financial strength of NBFCs, initiatives to inculcate fair corporate governance practices and good treatment of customers were also undertaken. The Reserve Bank issued guidelines on Fair Practices Code for NBFCs in September 2006; NBFCs were advised to invariably furnish a copy of the loan agreement along with a copy each of all enclosures quoted in the loan agreement to all borrowers at the time of sanction/ disbursement of loans. Deposit – taking NBFCs with deposits of ` .20 Crore and above and NBFCs-ND-SI have been advised to frame internal guidelines on corporate governance which should include, inter alia, constitution audit committee, nomination committee.
and risk management committee, among others. Certain disclosure and transparency practices have also been specified for them. NBFCs have been advised to lay down appropriate internal principles and procedures for determining interest rates and processing and other charges, even though interest rates are not regulated by the Reserve Bank. In order to ensure that only NBFCs which are actually engaged in the business of NBFI hold Certificate of Registration (COR),

- Various entry-level norms for new and existing NBFCs have been laid down. Among the various measures introduced was compulsory registration of NBFCs engaged in financial intermediation, prescription of minimum level of Net Owned Funds (NOF), maintenance of certain percentage of liquid assets, creation of reserve fund and transfer thereto every year a certain percentage of profits to reserve fund. The regulations also provide for measures like credit rating for deposits, capital adequacy, income recognition, asset classification, compulsory credit rating provision for bad and doubtful debts, exposure norms and other measures to keep a check on their financial solvency and financial reporting. While the regulatory framework has been dovetailed primarily towards NBFCs accepting/holding public deposits, the supervisory mechanism for NBFCs is based on three criteria, viz., (a) the size of the NBFC, (b) the type of activity performed, and (c) the acceptance or otherwise of public deposits. Towards this end, a four-pronged supervisory setup consisting of on-site examination, off-site surveillance, exception reporting by NBFCs' statutory auditors and market intelligence system has been instituted.

- The total number of NBFCs registered with the Reserve bank, consisting of NBFCs-D (deposit-taking NBFCs), RNBCs, Mutual Benefit Companies (MBCs), Miscellaneous Non Banking Companies (MNBCs) and Nidhi companies, declined from 14,077 at end-June 2002 to 12,385 at end-June 2012. The number of NBFC-D also declined from 784 at end-June 2002 to 271 at end-June 2012, mainly due to exit of many NBFCs from deposit taking activity. The annual
growth rates are consistently negative from the year 2003, for both number of NBFCs registered and number of NBFCs accepting deposits. Despite the decline in the number of NBFCs, their total assets as well as net owned funds registered an increase during 2010-11, while public deposits recorded a decline.

- The financial performance of NBFCs suffered a setback during 2005-06. While income earned by NBFCs declined marginally, expenditure increased sharply. The financial performance of NBFCs in terms of income and net profit improved during 2008-09. Both fund based income and fee based income registered robust growth. The financial performance of NBFC-D witnessed improvement as reflected in the increase in their operating profits during 2010-11. This increase in profit was mainly on account of growth in income (fund based) while expenditure declined marginally. The operating profit along with an increase in tax provision resulted in almost doubling of net profit during 2010-11.

- Gross Non Performing Assets (NPAs) (as a percentage of gross advances) as well as net NPAs (as percentage of net advances) of reporting NBFCs, as a group, registered a steady decline between end-March 2001 and end-March 2004 and further to 0.7 percent in 2011 and stood at 2.1 percent in 2012. While gross NPAs continued to decline during the year ended March 2005, net NPAs increased significantly. Gross NPAs (as a percentage of gross advances) as well as net NPAs (as percentage of net advances) of reporting NBFCs registered a sharp decline during the year ended March 2012. In continuation of the trend witnessed during the last few years, gross NPAs (as percentage of gross advances) as well as net NPAs (as percentage of net advances) of reporting NBFCs declined further during the year ended March 2012.

- The ratio of public deposits to NOF in respect of almost all NBFC groups except loan companies, after increasing marginally during the year ended March 2004, declined during the year ended March 2005-2008. The ratio of public deposits to NOF in the case of loan companies and hire purchase declined during the year
ended March 2009, while that of other category companies witnessed a marginal increase.

- The ratio of Public deposits to net owned funds (NOF) of NBFCs taken together has increased marginally 0.3% at end March 2011. There was an increase in NOF and Public deposits of NBFC-D during 2010-11. This increase was mainly concentrated in the NOF size category of Rs. 500 and above. The number of NBFCs gradually decreased from the year 1998 and the deposits held by NBFCs also gradually decreased till the year 2008. The years 2009, 2010 and 2012 have noticed a growth in the public deposits held by NBFCs. The number of RNBCs has not been considerably increased and the public deposits held by RNBCs have noticed a sharp increase.

- **Miscellaneous Non-Banking Companies (MNBCs)** are mainly engaged in the Chit Fund business. The term 'deposit' as defined under Section 45 I (bb) of the Reserve Bank of India Act, 1934 does not include subscription to Chit Funds. The Chit Fund companies have been exempted from all the core provisions of Chapter IIIB of the RBI Act including registration. In terms of Miscellaneous Non-Banking Companies (RBI) Directions, the companies can accept deposits up to 25 per cent and 15 per cent of the NOF from public and shareholders, respectively, for a period of 6 months to 36 months, but cannot accept deposits repayable on demand/notice.

- The Miscellaneous Non-Banking Companies (Reserve Bank ) Directions, 1977 came into force with effect from the 1st July, 1977. These directions shall apply to every financial institution which is a company and which carries on in any place in the State of Jammu and Kashmir, any of the following types of business and to every financial institution which is a company and which carries on, in any place in India, any of the mentioned types of business referred to collecting whether as a promoter, foreman, agent or in any other capacity, monies in one lump sum or in
installments by way of contribution, or subscription or by sale of units, certificates or other instruments or in any other manner or as membership fees or admission fees or service charges to or in respect of any savings, mutual benefit, thrift, or any other scheme or arrangement by whatever name called, and utilizing the monies so collected or any part thereof or the income accruing from investment or other use of such monies.

- The Reserve Bank of India, having considered it necessary in the public interest, amended the Miscellaneous Non-Banking Companies (Reserve Bank) Directions, 1977, in exercise of the powers conferred by sections 45j, 45k and 45l of the Reserve Bank of India Act, 1934, (2 of 1934) and all the powers enabling it in this behalf, with immediate effect vide their letter No: RBI/2009-10/133,RNBS (PD) CC.NO.159 /03.03.01/2009-10, prohibit MNBCs from accepting deposits from public except from shareholders, which is subject to the conditions specified in the directions issued by the Reserve Bank. Any deposit accepted and held by the MNBCs other than from its shareholders as on date shall be repaid on maturity and shall not be eligible for renewal.

- The Reserve Bank only regulates the deposits accepted by these companies, but it does not regulate their Chit Fund business, which is administered by the respective State Governments through the offices of Registrars of Chits. The Chit Funds Act, 1982 was enacted as a Central Act for ensuring uniformity in the provisions applicable to Chit Fund institutions throughout the country, and all State Governments are required to frame rules for extending the provisions of this Act to their respective jurisdictions. At present, 16 States and 6 Union Territories have adopted the Central Act and the Reserve Bank is pursuing with the State Governments of Andhra Pradesh, Arunachal Pradesh, Gujarat, Haryana, Kerala, Maharashtra, Mizoram and Nagaland for early formulation of rules under the Central Act.
Chit Funds come under the umbrella of NBFCs but most traditional in existence. Chit funds constitute convenient instruments combining saving and borrowing. The mechanism of chit fund schemes involves (a) the pooling of resources of a group of individuals (savers), (b) the loaning out of the amounts thus collected either by drawing of lots or by auction to one of the members (borrowers) of the group, and (c) the continuance of this process of collection and distribution till the termination of the stipulated period of the schemes.

Chit fund is a typical indigenous financial institution. As a non-banking financial intermediary, it has been serving the needs of the community for many decades now. Chit funds grew at a time when banking and credit facilities were inadequate and people in general had to rely to a large measure on indigenous sources for their many productive and consumption needs. Even after the tremendous expansion of banking and credit facilities in the country, chit funds seem to continue to be popular with certain sections of the community.

A chit fund is organized by a small group of people well-known to each other, who agrees to contribute periodically a certain amount of grain or money and to distribute the entire collection (fund), or a part of it, to one of the subscribers on some mutually agreed basis.

The chit fund is regarded more than a savings bank to the saver and more than a lender to the debtor. The main objective of the study is to enquire into the operation and intricacies and challenges of Chit funds. The other objectives are

- to account for the emergence and growth profile of NBFCs of which chit funds are an integral part.
- to explain the operational procedure, structure and composition of chit funds.
- to highlight the role and significance of chit funds as an effective instrument of finance for low income households paving the way for financial inclusion.
to analyze the perceptions of stakeholders, the members and managers of chit funds, to unleash the issues and challenges and intricacies of chit funds.

to identify the problems faced by the chit fund industry and to assess the customer expectations and requirements and the extent to which the chit fund industry could stand customer centric.

to offer suggestions for policy prescriptions for a better operation and regulation and management of chit funds.

The chit funds and Nidhis played a key role in Indian financial system and worked as bridge between the age old financial practices and the modern banking system. Chit funds are indigenous financial institutions in India that cater to the financial needs of low income households that have been excluded from the former financial system.

Today chit fund in India is highly institutionalised and stand in the status of a financial industry. No doubt the chit fund industry consists of both registered and un registered chit funds. The money circulated in the registered chit fund industry ranges from 10-50 percent of the bank finance. But, the number of chit fund schemes registered has been on the trend of decline over the years ending 2010. The rate of decline in the number of chit fund schemes, registered between 2005 and 2010 are around 12 to15 percent.

The Indian financial system personified from the traditional barter system to the money lenders, the Nidhis and chit funds. In the latter stages, the concept of cooperatives was started and the same was introduced in India during 1904 by way of a cooperative societies Act. Thus traditionally chit funds stand as innovative access to finance for low income households and act as an effective
instrument for financial inclusion. In a country like India characterized the low incomes and poverty, undoubtedly chit funds are the vehicles of inclusive finance.

- The Indian Financial System was transpired from the traditional Barter system to the money lenders, the Nidhis and Chit Funds. The concept of nidhis and chit funds are played key role in Indian financial system and it worked as bridge between the age old financial practices and the modern banking system. It is also stated that even today the chit fund industry is playing major role in reaching the public and it has become a major substitute to the banks where ever the Bank is not able to reach and cater their needs, such places the chit fund companies and nidhis are in handy to them.

- NBFCs are financial intermediaries engaged primarily in the business of accepting deposits delivering credit. They play an important role in channelising the scarce financial resources to capital formation. NBFCs supplement the role of banking sector in meeting the increasing financial needs of the corporate sector, delivering credit to the unorganised sector &to small local borrowers. All NBFCs are under direct control of RBI in India. A Non-Banking Financial Company (NBFC) is a company incorporated under the Companies Act, 1956 and conducting financial business as its principal business.

- A totally Indian concept, the chit fund system has now been globally operated and won universal acclaim. In the villages of Kerala in India, many years ago, a small group of farmers operated a unique scheme. Each farmer gave a fixed quantity of grains periodically to a selected trustee. The Trustee, after keeping aside a portion for himself, gave the rest to a member of the group to help him to meet his social commitments and other needs.

- The additional benefits when receiving the lot earlier led to competition. Some members were even willing to forgo a certain portion (like a discount) of the lot,
in order to get an earlier chance. So, an auction was held and the lowest bidder got the lot. This was the basis of what we know today as the “chit fund scheme”.

- “The concept of Chit funds came into being in the 1800’s when Raja Rama varma, ruler of erstwhile Cochin State gave a loan to a Syrian trader, keeping a certain portion of it to himself for administrative and other expenses. Later, to manage the increasing number of those seeking loans, he ordered a cast of lots and gave the accumulated amount to those who drew the lot on the principle of equity. Gradually the practice spread to other parts of the country and even abroad, includes Myanmar and Sri Lanka. But real streamlining of operations was somewhere between 1830 and 1835 , when the Chaldean Syrian church started Kuries under its name and issued passbooks to subscribers as evidence of enrolment” Another version of the origin of Chit fund is linked with Portuguese missionaries from China, who visited Muziris (Kodungallor) for evangelization and established a seminary at Vypeencotta village in 1577. They reportedly encouraged promotion of chit fund in Kodungaloor.

- Chit fund is a typical indigenous financial institution peculiar to South India, particularly Andhra Pradesh, Tamil Nadu and Kerala. Chit funds grew at a time when banking and credit facilities were inadequate and people in general had to rely to a large measure on indigenous sources for their many productive and consumption needs. Chit funds have been meeting a part of the genuine credit needs of the people, both in urban and rural areas. They have served as a medium of saving for many people. The term ‘chit’ in Tamil and the terms ‘chitty’ and ‘kuri’ in Malayalam are synonymous, meaning a written piece of paper in Andhra Pradesh it is known as Cheety.

- The main purpose of merchants and traders to join chitties is borrowing. They use the prize amount for the furtherance of their business. The principle of lot system was a major obstacle in the way of taking the prize amount in advance and they used to borrow the necessary amount from money-lenders or others at high
rates of interest and used to repay when they got the prize amount. Sometimes they used to even borrow the money from the foreman itself. Later on, the foreman realized that majority of the people joining chitty for getting financial accommodation. With a view to serve this class of people in a better way, the foreman adopted the principle of auction for determining the prize winner.

➢ The earliest form of chit business was based on the system of lot, which grew out of the grain chit (Dhanya Chit). Later the auction system was developed. The lot system gave amount to a person who might not necessarily be in need of it. In the auction system, it becomes possible for needy members to bid for an amount depending upon their urgency. The difference amount between the total collection and the bid amount was distributed as dividend or kasar to all members including the successful bidder. The excess collection was divided into two parts, not necessarily equal. One part was distributed equally to all the members of the group as kasar and the other part also equally, but only to non-prized members. The latter was an incentive to those members who joined the group primarily to save.

➢ Before the development of communication in India, chit funds were confined to small villages or a particular community. The main factor responsible for the success of these early chitties was the nature of the village economy. The village was practically self-sufficient. There was a little communication with the distant towns. Grain was the main source for buying any other thing. There was no institution for keeping savings, and they spent carelessly the produce in ceremonies and festivities and borrowed afterwards for survival. To these people the chitty turned out to be a boon. With the development of transport and communications and with the mobility of people between places, chit funds lost to an extent their localized character.

➢ The Banking Commission which studied the working of chit funds recommended the starting of chit funds in the public sector. Even before the commission
recommended chit funds in the public sector, the Government of Kerala set up in 1969 a company called the Kerala State Financial Enterprises Limited, with the object of starting, conducting, promoting, operating, managing and carrying on the business of chits in India or elsewhere. The chit fund habit today is no longer confined to a village or town, but is fairly widespread not only in south Indian states, but also to other states in the country and other countries like Malaysia and Sri Lanka.

➢ A chit fund, thus, is a financial arrangement or Institution based on mutual trust and confidence. It has a limited number of members preferably known to one another, for a limited period and with limited liability. The membership is voluntary. People join a chit fund either to obtain easy credit or to find an avenue for the investment of their savings. The main attraction is the availability of a lump sum either for expenditure or for saving.

➢ A chit fund is primarily a mutual benefit society in which some people join to save and others to borrow. Unlike the other financial intermediaries, chit fund connects the borrowing class directly with the lending class and the pooled saving is lent out to the same group of savers. The intermediation involved in chit fund is that the promoter of chit fund mobilizes the savings of one group of people and passes them on by turn to the same group of people, who may utilize them either for consumption or investment purposes. The transformation here is that of savings into consumption and/or investment.

➢ Chit fund are the Indian equivalent of the Rotating Saving and Credit Associations (ROSCA) that are famous throughout the world. ROSCAS are informal financial institutions which are found all over the world. They are most common in developing countries but are also used by immigrant groups in the United States. The Marathi vernacular for money club is known as ‘Bishi’. It is the collective name for the rotating, as well as the non-rotating, savings and credit association. In these associations, members make periodic contributions that are
pooled in a fund from which loans are made. In the rotating Bishi, the total fund is given to each of the members in rotation until everyone has had a turn. Hence, only one loan is made each time the members convene.

- The Indian ROSCA is commonly known as chit fund or chitty. Its origin antedates the establishment of modern banking. Originally, contributions were in kind, paddy or rice. This made chitty very popular among the women, who saved a handful of rice from each daily meal to contribute to their rice bank. They invested the proceeds of chitty in gold ornaments, household utensils or small livestock. This type of ROSCA became known as grainbishi, because contributions were in grain. With the monetization of the economy, contributions in cash gradually replaced those in rice or grain. The chitty became popular among professionals other than agriculturists, and its nature changed from a pure savings club to a savings and loan society.

- The genesis of chits has an ancient history. The so-called modern banking system is borrowed from the western countries. But the Chit is an indigenous product of finance evolved, perfected and adopted to suit the needs of our country. The nucleus of chits is based on Co-operation. A chit is the only financial tool, which earns to the borrower. The concept of chit funds originated more than 1000 years ago. Initially it was in the form of an informal association of traders and households within communities. Wherein the members contributed some money in return for an accumulated sum at the end of the tenure. Participation in chit funds was mainly for the purpose of purchasing some property or, in other words, for ‘consumption’ purposes. However, in recent times, there has been tremendous alteration in the constitution and functioning of chit funds. The first enactment of chits was made by Government of Travancore in the year 1914. Subsequently many states in our country formulated and enacted chit acts. With the collapse of many chit fund companies in early seventies, the Government of India constituted a special committee to undertake study of chits, its implications, benefits or problems to the economy of the country. On the recommendations of this
committee a special chit act was formulated and a uniform chit fund act under the name of ‘Chit Funds Act 1982’ was introduced by the Parliament of Union Government.

“Chit” means a transaction whether called chit, chit fund, chitty, kuri 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 many be specified in the chit agreement, be entitled to the prize amount.

Most of the prize chit institutions are private limited companies with a very low capital base amounting to a few thousand rupees, contributed by the promoters/directors or their close relatives. A study conducted by Reserve Bank of 71 prize chit companies revealed that the companies had absolutely no stake of their own in the business and were solely dependent on public funds. This was mainly due to the high expenditure incurred by the companies on advertisements and commission paid to the agents.

The banking commission has pointed out that the running of prize chits amounts to commission of an offence of running a lottery under section 294 A of the Indian Penal Code; however, the police regard this as a civil transaction and the offence remains a non-cognizable one. Besides section 294A of the Indian Penal Code, some states have enacted or are contemplating to enact legislations of their own for dealing with lotteries and schemes of the type under consideration.

The main function of chitty organization is acceptance of savings and disbursement of credit, to the members of the chit. Chit funds have the advantage both for serving a need and as an investment. Money can be readily drawn in an emergency or could be continued as an investment. Interest is determined by the
subscribers themselves, based on mutual decisions and varies from auction to auction.

- Chit funds can be relied upon to satisfy personal needs. Unlike other financial institutions, one can draw upon his chit fund for any purpose – marriage, religious functions, medical expenses, just anything. Cost of intermediation is the lowest. The funds generally allow multiple membership in each scheme, which means that a member can contribute double or more number of times the amount and participate in that many auctions during the tenure of the scheme.

- Unlike in other Non-banking financial intermediaries, the investors of chit funds, get the return (i.e. the dividend) which is the discount amount foregone by the prized subscribers whereas, in any other financial institutions, the returns are earned by the companies by investing on other financial securities. Unlike in other financial intermediaries, in the case of a chit fund, the collective saving of one group of people are made available to the same group of people by turn, as agreed upon among the members.

- In a chit fund a subscriber can take the future subscriptions in advance by successfully bidding at the auction and will continue to pay the subscriptions till the last installment. Thus the chit fund is regarded as more than a saving bank to the saver and more than a lender to the debtor. Another important feature of a chit fund is that members who borrow are liable to varying rate of interest. The interest cost to a member borrower depends on the stage at which he bids the money. Generally the member who bids in the earlier stage has to pay higher rate of interest than a member who bids in the later stage.

- Financial planning is mandatory for everyone. It is sensible to earmark a small amount from your business/income every month as a reserve to face any contingencies. Similarly social events need to be financially planned. Housing, education, marriage and travel have all become finance intensive. Subscribing to
chit schemes is akin to creating a generalized contingency reserve, which may be liquidated in case of any business or social contingency.

- The biggest advantage that the institution of chit funds has to offer is that you can plan in advance for any forthcoming capital outflow even if you are not aware as regards the exact timing of such outflow. The most significant aspect of the chit fund business is the element of mutuality and participation by every subscriber. In chit business, the interest rate if determined by the supply and demand situation is not imposed on the user by any external agency. It provides a right to the subscribers to access credit on providing necessary security, without any pressure on his self-respect. The field is fully self-financing and completely independent of external support unlike rural self-help credit groups which lean on Government financial needs.

- “India is full of people with good ideas who are willing to work hard. But there are very few avenues yet to support them. The money we have here is not patient money. We are still not in a position to wait long enough to get return or write off failures”. Chit-fund is a community activity, which can provide a great service to small entrepreneurs. Financial planning for capital goods purchase may be tailored through chits in a manner that is flexible and convenient. Chits are more a product of advanced planning and financial discipline.

- As time passed, the demand for money and credit for productive activities became more pronounced and new forms of finance emerged, notably banking. Most of the banks have grown out of the womb of chit and kuri funds that have been operating in many states in the country since ancient times. In the beginning days, the business of kuries or chitties formed a substantial portion of the banking business. As time passed, banks and other joint stock companies began controlling chitties.
There is a similarity in the two major functions of a bank and a chit fund, viz., the acceptance of deposit and disbursement of credit. Subscriptions made by the members of a chit fund are analogous to the deposits made in the bank, and the prize amounts distributed by the former are comparable to the advances made by the latter. While periodicity of deposit in a bank, except in the case of recurring deposit, is optional, it is obligatory in a chit fund. Once a member of a chit fund, he has to subscribe regularly the due amount at all installments during the period of the chitty. Failure to contribute the amount in time entails penalty and default of payments for two consecutive installments is a sufficient reason for the cancellation of membership. Secondly, the bank deposit carries interest whereas the subscriptions in chitties fetch dividends at varying rates, if the chitty is one with dividend facility. Thirdly, the deposit in a bank can be withdrawn, partly or fully, at any time, but the subscriptions in a chitty cannot be withdrawn before the termination of the chitty period; if a subscriber wants to discontinue his membership in the chitty and to stop his remittances, he can do so but he will not get the amount already subscribed before the end of the chitty.

The entry of commercial banks in the field of chit business will have a restraining influence on the mushroom growth of small chit funds contributed by a large number of small investors. The entry would help safeguard better the interests of small savers and curb the unscrupulous persons to start the business and misuse and mismanage the funds collected from small savers by diverting them into other risky investments. These chit funds are not able to survive even minor financial difficulties and are forced to close down causing heavy losses to the members. Banks generally sanction loans for productive activities and they do not give any loans for social obligations. This will not benefit the people who are in emergent need of money, and banks only sanction loans basing on certain repayable ability and that to up to some limit only. But certain types of expenditure though not generating additional income, is nevertheless a must, either for personal reasons or for socio-economic considerations. In this regard
chit funds are of great help. If banks could take up this activity it would be a friend in need of the small man.

- The uniqueness of chit funds is that the depositor in an ordinary savings institution gets back his total savings at any time; the subscriber in a chit fund can take the future savings as well in advance. More than anything else, it is this facility for immediate realization of future savings in a lump sum that induces many people to subscribe to chit funds. The borrower tied to the fund till its end. He has to continue to subscribe the stipulated amount so that his loan is liquidated at the termination of the chitty.

- Many of the subscribers in the survey opined that chit funds are cheaper source of finance compared to money lenders, Banks, post office schemes and any other modes of finance. Many of the people told that they do not even know how to calculate the interest they pay or interest they receive. They prefer chit funds because it is easy accessible and convenient mode of finance and the borrower members told that they never bothered about the cost of funds. They told it is easy mode of finance for them. Most of the people seem that they are only bothering about the timely arrangement of the money without much strains and pains and are not considering of the cost of the chit funds.

- An unregistered chit fund means unauthorized way of running chit schemes. These are not legalized and have no registration with the concerned authorities. These are informally run by the people who have very good social contacts. Generally the manager or organizer of unregistered chit fund is a member in the religious group or a reputed person in an area or village, reliable to everyone in that community.

- Unregistered chit fund business is not only popular in rural areas and uneducated people as many of us think, these are very extensively conducted by urban and metropolitan cities in large number by business and corporate people.
There are nearly 6,000 unregistered companies across Andhra Pradesh with an annual turnover of Rs.40,000 crore. There are only 1200 companies are registered companies, with an annual turnover of only Rs.15,000 crore. That means the unregistered chit fund companies in the state are 6 times greater than registered companies. There are so many reasons why people invest in unregistered companies some of them are (a) Easy access to money; (b) No processing delays, whenever the money is required the foreman will arrange the money; (c) There are no much procedural formalities; (d) It is very accessible to low income people; (e) No collateral or nominal collateral is enough.

Chit funds are open to abuse by the foreman who may resort to unfair methods for securing illegal gains. Such unfair methods include enrolment of fictitious members to complete the required number of members in a chit series. Similarly, a needy non-prized member may be exploited so that he gets the prize only at the maximum discount. Delaying tactics may be adopted by the foreman in disbursing the prize amount to prized subscriber on the ground that the security offered by him is not acceptable or adequate. Meanwhile, the foreman may use the prize money interest-free. If he succeeds in delaying payment till the succeeding draw, the earlier prize winner can be given the prize out of the collections of the succeeding draw. Thus, one installment can always remain in the hands of the foreman to be utilized in any way he likes. The above malpractices are only of an illustrative nature and while framing the regulatory measures, such malpractices will have to be kept in view so as to minimize their occurrence.

The State Government introduced the A.P chit funds act (amendment) bill, replacing an ordinance to regulate chit fund companies in the State on 13 November, 2007. The Andhra Pradesh Chit Fund (amendment) Bill 2007 was adopted in the Assembly. The bill prescribes a minimum paid up capital of ` 1 lakh for doing chit fund business, 100 per cent security of the chit amount prescribed, higher penalty of two years imprisonment and Rs.5,000 fine and
settlement of disputes by the officials of the registration department instead of the civil court.

- All the changes suggested by the state government turned out to be unacceptable to the union government. With this, the government also decided to defer its plan to introduce its own legislation to control and streamline chit funds business in the state. The state government has decided to adopt the chit funds act of 1982 enacted by the union government in full, without making any amendments to it as planned earlier.

- The reasons why some of the chit fund companies in A.P. in recent years are defaulted to the customers are collecting deposits from the public by attracting thousands of customers, assuring them high interest rates than banks and investing crores of rupees collected from the thousands of people and invested these amounts in real estate business, finance business, investment and resorts and movie making business and end up with huge losses and failed to pay the amounts due to the customers. These companies are collecting deposits on personal guarantee without leaving the opportunity to the court to seal their other businesses.

- After the crisis in the MFI sector especially in Andhra Pradesh, investment opportunities in NBFCs (Non-Banking Finance Companies) have shrunk. Investors are looking at alternative investment options and a chit fund is one better option of investment though the returns may not be as alluring as the MFI sector.

- The southern states of Kerala, Tamilnadu, and Andhra Pradesh, where the MFI crisis got precipitated, account for 1/3rd of the chit fund industry in India. The total size of the industry in the country is estimated at Rs. 35,000 crore. The total number of registered companies in the country is 30,000 and the unregistered sector is 100 times bigger than the registered one. The industry grew around 20% last year, against a usual growth of 10-15 per cent. Typically, these companies
cater to middle-income group clients, due to the high cost of operations and cap on revenue. However, with the crisis in the micro finance sector, chit fund companies are now eager to tap lower income group households. Thus, over the past year, chit funds of lower denomination, with a higher number of participants, fuelled the growth of the industry in the southern states.

- A country like India, which is most predominantly agricultural country, and is being industrializing itself, the trade, communications and transport needs of the country are increasing on a massive scale. This situation increased the credit needs of the country. The organized banking sector being limiting its credit to certain types of business and under severe restrictions and conditions to extend credit, the credit needs of various sectors is being met on a large scale by the non-banking sector of the economy. Even after the nationalization of the commercial banks and enormous branch expansion the credit needs of the vendors, petty trades, poor agriculturists and the very poor sections of the economy, who need credit for a very short period of time varies from a day to a week or a month, are not met properly by the commercial banks.

- The unorganized and the individual money-lending facilities supplement the institutional credit in the economy. The role of non-banking finance companies and chit fund companies has been increasing in serving the credit needs of the middle class and poor rural segment of the economy.

- Chit funds are preferred to banks because of its adoptability to the requirements of the local people, easy accessibility and less formalities and procedures. Despite of many drawbacks, frauds and failures chit funds are growing with expansion of branches all over the country. The general impression that chit funds are cheap source of credit may not be true. People join chit funds either to borrow or to save. People who join to borrow, they borrow for two purposes. Some they borrow for consumption expenditures and some for productive purposes. The former category, generally borrow because of easy availability of funds and they
will not bother of the cost of funds. The latter category also will not bother of the cost of funds because they invest the money and earn more return than what they pay for the funds. People, who join the chit funds to save, are generally high ranked people like lawyers, doctors, pensioners and house wives getting income from farm, rent and interests on their deposits with the banks to get the advantage of high rate of return on their money.

- The lack of Government concentration on chit fund business is effecting the growth and reputation of the business. Due to Government’s negligence many small chit funds sprouting all over the state and misusing the subscriber’s funds. Some of these companies are pooling the money and winding up without any notice to subscribers, because of these companies entire industry is under question. Not only new chit funds but also very well established chit fund companies having a good track record of more than twenty years are also defaulting and deceiving their customers by absconding with the money of the subscribers. Crores of rupees are still unrecovered by these companies. These companies stood as obstacles in the smooth running of the chit funds.

- Lack of financial discipline and financial literacy of the subscribers causing damage to the chit fund industry. Lack of publicity is another reason why chit funds not preferred by most of the educated employees. Because of financial illiteracy, people do not know well the cost borrowing from the chit funds. And do not know how to calculate the interest rates.

- There exists difference between participants in registered and unregistered chits, which is about 65% in the age group of 50 to 60 years and the trend continues in the age group of above 60 years. It is pertinent to mention that, out of 1220 respondents this age group contains 525 participants in chit industry. It is clearly shows that, 25 to 40 years age group are more attracted or inclined towards this industry rather than any other age group.
It is observed that the chit subscribers at the higher levels of age prefer the registered chit funds as against the unregistered. It is vice-versa in the case of the chit members at the lower age profile. This helps to surmise that the experience track of the chit members and their maturity levels associated with the age profile do bear an influence in the preference of the type of the chit fund companies-registered and unregistered. As the age group of the people increasing, they show higher stability in preferring chit funds. While the young age group i.e. below 25 years subscribers have less stability in preferring chit funds.

Nearly 70 percentage of male preferring registered chits and 30 percentage preferring unregistered chits whereas, nearly 52 percentage of female preferring registered and remaining 38 percentage are preferring unregistered companies. Female preferring unregistered companies are 50 more than male.

It is evident from the study that income range and preference of chit funds are dependent on gender. The difference between the gender and the preference of chit funds is significant. The Gender has influence on preferring the chit funds. Male have higher uniformity in preferring chit funds, where as female have less uniformity in their preference.

Maximum participants of the chit funds belong to the income group less than ₹1.10000 to ₹1.30000 (83.69 per cent) and only 16.31 per cent of the participants belong to the income group above ₹1.30000. So it is concluded that maximum of the subscribers belong to middle and lower income groups.

The difference between income range and the preference of chit funds is significant. The preference of chit funds is dependent on income level. There is high degree of uniformity in the income group above ₹1.50000 in preferring chit funds and choosing type of the company. While in low income group, the uniformity of preference is less.
➢ The major participants in the registered chits are Business, private and Government salaried respondents, they account for more than 60 per cent. The business class and private salaried class are participating more than 50 per cent in chits (in both forms). The most of the subscribers in chit funds are participating for saving as well as working capital requirement purposes.

➢ The difference between the occupation and preference of chit funds is not significant. The occupation is independent on preferring the chit funds. Among the occupations, the share of participation of business and self employed is 40.98 per cent. Next it is salaried respondents (both government and private) occupying 40.57 per cent of the share, Agriculture respondents 11.7 per cent and retired respondents 7.3 per cent. Business and salaried respondents together they occupy the share of 81.55 per cent. It is clear that, Business respondents and Government salaried and self employed respondents have uniform level of opinion on chit fund companies.

➢ The new entrants in unregistered chits are more than the registered chits and it is almost double in the respective type of chits. As the time increases the per cent of participants are increasing, with this we can conclude that, once if anyone is entering into chit industry the chances for likely to continue are more in both the forms. It is indicating that the chit industry irrespective of registered or unregistered, maintaining the customer relations and other possible ways to retain the customers with them for longer periods. The period of association of subscribers with chit funds differ significantly and the results of it show that, the participants have high degree of uniformity in the association with chit fund companies.

➢ People with different educational backgrounds are equally aware of the chit fund companies. The per cent of unawareness is very low. The education levels from primary to post graduation and other professional respondents have no much variation in their awareness levels about the chit business. 98 per cent of all the
people at different education levels have minimum knowledge on chit funds. Educational background of the subscriber and the level of awareness of chit funds is not significant. Education has effect on the awareness of chit funds. It is also revealed that, SSC and Intermediate level education has greater uniformity in the opinion, where as Graduation and Post graduation level education has less uniformity in the opinion.

- The subscribers who are having very high level of awareness on chit funds are having bidding preference as waiting till last few installments 211(33.92%), First Few installments 174(27.97%), Middle installments 156(25.08%) and remaining 81(13.02%) are not having any preference. Customers who are having moderate level of awareness about chits are having bidding preference for last few installments 151(37.56%), first few installments 116(28.86%), middle installments 93(23.13%) and the subscriber who are not having any special preference is 42(10.45%). This gives a clear picture from the customer awareness point of view that, the bidding at middle and last few installments yields more benefits to the chit subscribers. The difference between the level of awareness on chits and the time of bidding is not significant. There is no significant difference between the levels of awareness of the respondents on timing of bidding.

- Processing delays are very common and comparatively high in registered companies, whereas in unregistered companies there are no much processing delay for receiving the prize money and the funds available in very less time. It is also evident, that there are no much bidding restrictions with registered companies except the ceiling on bidding. The bidding process is random. Where as in unregistered companies, there are many bidding restrictions like favouring towards some respondents, the bidding process follows, convenient or quota type of selection.
The delays and bidding restrictions are dependent on the type of the company. Delays in processing money independent on type of the company is accepted, and is concluded that bid restrictions are independent on the type of the company.

Reliability rating of registered companies is between good to excellent. 72 per cent of the registered companies are excellent. When it comes to unregistered companies, the reliability rate is comparatively less than registered companies, but good to excellent as it is in registered company. Rating poor or average for the companies is almost negligible. Registered companies have been rated from good to excellent.(by 35 per cent to 100 per cent of the respondents respectively), and unregistered companies are rated from average to good.(93 per cent and 64 per cent) only registered companies got excellent rating.

There is a significant difference in the satisfaction levels of customer towards the type of Chit entity. The satisfaction level of the respondents on registered companies is to the maximum (76 per cent) extent neither satisfied nor dissatisfied. In unregistered firms mostly the subscribers expressed that they are satisfied.

In total 96 per cent of the subscribers are having high and very high awareness on banking. The level of awareness on banking and chit funds is dependent. The chit fund subscribers know very well about banking but they prefer chits. On the other hand 87.7 per cent of the subscribers are having low and very low awareness on PPF schemes. The awareness on PPF scheme and awareness on chit fund scheme are independent on each other.

Nearly 92.4 per cent of the subscribers are having high and very high awareness on cooperatives and postal savings. The chit subscribers who are aware of chit funds are much aware of the cooperatives and postal schemes also. Nearly 84.4 per cent of the subscribers are having moderate to high awareness on Shares and Mutual funds. The difference between the awareness of chit funds and shares,
mutual funds is significant. Awareness on shares and mutual funds and awareness on chit funds are dependent. 96.8 per cent of the subscribers are having high and very high awareness on F.D and Insurance. The subscribers who are aware of chit funds are much aware of F.D and Insurance.

- The main reason for the proliferation of unregistered companies is that, there is no restriction of the government on unregistered companies and the government is not concentrating on the working of the registered chit companies except implementing the chit funds Act. The convenience and accessibility of the unregistered foreman and arrangement of the money whenever needed respectively are also the key issues in proliferation.

- Among the total subscribers, 38 per cent of the respondents rated chit funds as an excellent mode of finance than any other financing mode. 18 per cent of the respondents rated as very good and 22 per cent of the respondents rated as good and 19 per cent of them rated it as average. Together 96 per cent of the respondents rated chit funds as good and very good source of finance. From the table it can be concluded that more than 40 per cent are opined that chit funds is the better mode of saving and it is safer than money lenders(52.0%), Shares and Mutual Funds(44.0%) and Micro Finance(40.0%) . The subscribers are also having belief on banks and other modes of finance.

- The working and increase in the number of Registered chit funds may be affected by various aspects or reasons like more expansion of commercial bank branches across the country, frauds of the chit fund companies, operating other business like Real estates and Resorts by chit fund companies, increased salaries to the employees and commission agents of the chit fund companies, high registration fees for the chit group, absence of low value chits because of insignificant commission charges etc.

- Chi-Square value at 0.05 level of significance and degree of freedom 8 is 15.507. Since the calculated value of chi square (2.454) as evident from the table 6.21 is
lesser than the table value of chi square (15.507) hence, Hypothesis H$_0$: there is no affect of the reasons on the existence of registered chit funds, Accepted and it is concluded that the given reasons at table 6.21 are independent of the existence of registered chit funds. It is therefore concluded that there is no affect on the existence of registered chit funds. But there exists on the whole a negative correlation (-0.179) between the given reasons and the proliferation of the registered chit fund companies i.e., all the above reasons are have a negative effect on the proliferation of the registered chit fund companies. Standard deviation results in high degree of uniformity among members regarding political issues affecting the registered companies and increasing operational costs of the registered chit companies.

- There are different reasons why the subscribers prefer the registered or unregistered chit fund entities. These include flexibility, accessibility, the risk aspects, knowledge of the operator, commission and interest advantage, network coverage, transparency and proper documentation. There are various reasons that influence the chit subscribers in preferring registered and unregistered chit fund entities. The reasons that are influencing are the prior knowledge of the chit operator (44.27%), existence of friends and relatives in chit fund units (37.24%) and wide network of the chit fund units (29.36%) are the three major reasons stated for preferring the chit fund firms. In the case of the registered firms, the preference of the chit subscribers is said to be based on the reasons like knowledge of the chit operator (34.04%), existence of friends and relatives in chit fund units (15.22%) and commission/interest advantage and risk advantage (11.55% each) followed by transparency and ease of documentation (11.25%) and wider network (10.64%). But in the case of unregistered chit fund units the most important reasons stated for subscriber preference are existence of friends and relatives in chit fund units (22.22%), wider network (18.72%), and flexibility (18.39%). And it is followed by known chit operator and easy accessibility (10.23% each).
More than 50 per cent of respondents are well aware of the working of chit funds and they are investing for various purposes like buying consumer durables, construction of house, for children education, to meeting the contingent liabilities amounts to nearly 55 per cent. Nearly 40 per cent respondents are having awareness to some extent and the 45 per cent of them are investing for 4 different types of purposes. Overall 85 per cent of investors are having awareness on the working of chit funds. The investors who are investing for the purpose of building a house, to meet contingent liabilities, to meet medical expenses and for education of children are occupying major porting in the subscribers who are not aware of chits.

89.3 per cent of the total respondents have very high awareness on other financial avenues and they have rated chit funds as average (20.4 per cent), good (23.3 per cent), very good (17.8 per cent) and excellent (32.7 per cent) respectively all these put together 94.2 per cent. Chit funds are highly preferred despite having complete knowledge on other avenues of finance.

The working and increase in the number of Registered chit funds may be affected by various aspects or reasons like more expansion of commercial bank branches across the country, frauds of the chit fund companies, operating other business like Real estates and Resorts by chit fund companies, increased salaries to the employees and commission agents of the chit fund companies, high registration fees for the chit group absence of low value chits because of insignificant commission charges etc.

60 per cent of the chit subscribers who are having very high awareness on other financial institutions are considering chits as Better Avenue over other financial institutions for investment. Only 5.9 per cent of subscribers who are having very high awareness on other financial institutions do not prefer chits over these institutions. The study of hypothesis revealed that, 89.3 per cent of the total respondents have very high awareness on other financial avenues and they are
preferring chit funds as average (20.4 per cent), good (23.3 per cent), very good (17.8 per cent) and excellent (32.7 per cent) respectively all these put together 94.2 per cent. Chit funds are highly preferred despite having complete knowledge on other avenues of finance.

- Registered companies are mostly involved in running 51 to above 100 schemes. When it comes to unregistered firms 76.5 per cent of them are involved in running 1 to 10 schemes and 21.6 per cent of them run 11 to 50 schemes and only 2 per cent of them 51 to above 100 schemes. The registered companies are more concentrating on high value chits whereas the unregistered chits are concentrating low value chits. The customers are having more choice in registered companies over unregistered companies.

- The study reveals that the number of registered subscribers pertaining to the chit value `.10 thousand to `.25 thousand is 30.1 per cent and `.25 thousand to `.3 lakh is 54.8 per cent and above `.3 lakh is 15.1 per cent. For Unregistered chit companies the chit values less than `.10 thousand to `.25 thousand is 69.6 per cent and `.25 thousand to `.3 lakh is 28.4 per cent above `.3 lakh is 2 per cent only. The Registered company is more concentrating on medium and high value chits hence, 70 per cent of its subscribers are belong to medium and high value chits and Unregistered company is less concentrated on high value chits especially above 1 lakh hence, nearly 70 per cent of subscribers of unregistered chits are low value chit subscribers.

- The registered companies accepting membership on the basis of monthly income (54.8 per cent) and they also consider the previous record (19.8%) of the similar transactions of the customer. Unregistered companies are accepting membership mostly on the basis of the monthly income (42.2 %) and they also give importance to previous track record (15.7%) of the customer, asset backing (4.9%) and multiple criteria (35.3%). On the whole, as further evident from the table a majority of the chit fund companies emphasise monthly income (49.1%) as the criteria for joining a chit members. It is followed by previous record of the
individuals (18%) and a considerable proportion of 26.3% of the chit fund entities take the multiple criteria of the monthly income, previous record of the members, asset backing, thrust worthiness etc.,

- A majority of 66.7 per cent of registered chit fund companies accept collateral equal to chit value (66.7 per cent) and collateral higher than chit value (15.9 per cent) in few of the cases. Unregistered chit funds collect collateral equal to chit value (60.8 per cent) and no collateral (29.4 per cent) in few of the cases. Both the companies generally seeks collateral equal to chit value and unregistered firms sometimes do not asks for any collateral whereas registered firms are highly conservative and particular in emphasizing for collateral higher than the chit value in many of the occasions.

- The amount of collateral collected is also depended on the value of chit. For chit value less than `10000 the no collateral will be collected by 44.4 per cent cases, collateral collected equal to chit value will be 33.3 per cent and the higher amount of chit value will be collected by 13.9% and 8.3% of are not collecting any collateral. In the case of chit value between `10000 to `25000 the collateral collected is mostly equal to chit value 57(78.1%) and lower and no collateral put together 15(20.5%) and remaining 1(1.4%) opined that the collateral collected is higher than the chit values. The chit values from `25000 to `100000 the major number of operators 50(69.4%) opined that the collateral collected is equal to the chit value and out of remaining 30.6% operators except 3(4.2%) all other operators said that the collateral collected is low and negligible. In the categories from `100000 to `300000 and `300000 and above the interesting thing is that the 90 per cent of collateral collected is equal and higher than the chit value. This clearly shows that, if the chit value is high the amount of collateral collected will be either equal or more than the chit value.

- Registered chit fund Company subscribers are reasonably prompt for 67.5 per cent and highly prompt are 21.4 per cent and for unregistered firms subscribers
are reasonably prompt for 64.7 per cent and highly prompt at 25.4 per cent. It is concluded that the participants are prompt in the payments irrespective of the type of the company.

➢ The issue statement “is commission sufficient”, has been accepted by 97(77.0%), 89(87.3%) from registered and unregistered operators respectively and the remaining 29(23.0%) and 13(12.7%) opined that the commission they are receiving for the operation of chits are not sufficient. The second issue “is Government less concentrating on chit funds”, 106(84.1%) registered chit operators, 56(54.9%) unregistered chit operators have said yes and the remaining 20(15.9%) and 46(45.1%) have said no. The third statement on “problems faced with central chit fund Act 1982”, for this issue only 39(31.0%) from registered chits and 31(30.4%) from unregistered firm operators opined that there is a problem with this Act. But majority of them i.e., 87(69.0%) and 71(69.6%) have said there is no problem with the Act. The last issue “is there any liquidity problem”, for this statement 111(88.1%) and 92(90.2%) for the registered and unregistered chit operators have said no to the liquidity problems and remaining said yes to this problem. The chit fund industry is looking for government recognition and its concentration on the industry.

➢ The reasons behind the chit subscribers preferring the unregistered and the registered chit funds, as perceived by the operating and managerial staff of the respective chit fund entities on each type of chit fund, the reflections of both the registered and unregistered managerial staff as evident, the members of the unregistered chit funds are perceived to prefer mostly due to easy accessibility (45.6%) followed by few procedural complexities (32.5%). Low amount of interest/commission is also stated as one of the reasons for preferring the unregistered chits by (13.6%) of managerial staff followed by risk aspects (8.3%). On the other hand with in the registered chits, legal protection is stated as the major reason (67.54%) for preferring the registered chits and it is followed by low risk (12.29%), interest advantage (10.96%) and easy access (9.29%) respectively.
The reason for registered chit fund companies’ default is diversion of chit amounts (36.5 per cent) and all the remaining reasons (44.4 per cent). The main reason for unregistered chit Fund firm defaults are diversion of chits and no legal action (25.4 per cent) and all the remaining reasons (67.6 per cent). Hence, it is concluded that though most of them opined that the important reason for the default of the companies is diversion of funds into various other purposes, it is not only the reason but all the other given reasons are also considerably affecting the default of the companies. Out of 126 registered chit managerial staff 71(56.5%) says that the default rate is low and 28(22.2%) opined that the default rate is negligible and only 18(14.3%) and 9(7.1%) opined that the default rate is high and very high respectively. In the case of unregistered chit operators 86.2% opined that the default rate is low and negligible and only 13.7% says that the default rate is high. It is clearly understood from the observations made by the chit operators that, the default rate is low in both forms of chits i.e., registered and unregistered.
B. SUGGESTIONS

✓ India lives in villages. The banking system in the country could not cater to the financial needs of the rural people and the farmers. It is only the chit funds that care the needs of rural and urban middle class people supporting them in meeting their immediate financial requirements, medical expenses, social obligations and ceremonies and the funds needed in small business and trade. Therefore the operation of chit funds need to be encouraged as a way of life but with a government supported protective mechanism for safeguarding the interest of the subscribers.

✓ Chit funds help the people not only to overcome their financial constraints but also acts as a profitable avenue of investment helping to earn good returns. Especially for the middle class and small business men chit funds if properly used, serve as effective tools to meet the unplanned, unforeseen and unexpected expenses with ease. Therefore chit funds should be encouraged among the rural as well as urban as a spring boat for enterprising and also empowerment.

✓ An attractive feature of the chit funds is that it is a unique instrument which has both saving as well as borrowing in one scheme. Moreover chit funds are the only financial institutions which are working more on mutual co-operation and self help rather than profit making of a single individual. With this philosophy in mind the concept of chit funds should be encouraged by the agencies like DRDA(District Rural Development Authority) among the self help groups to enrich the financial strength of the SAG groups and their sustainability.

✓ Chit funds act as banks in some aspect like accepting subscriptions and disbursement of credit. It is estimated that chit funds offer parallel banking services and around Rs.15000 crore of money being circulated only in southern states like Andhra Pradesh, Tamil Nadu, Kerala and Karnataka. And moreover the successful operation of chit fund thrive on mutual trust, co-operation and self help.
and highly suitable to the salaried people, agriculture people and also small traders and business people. So as conceived in some quarters the commercial banks should not step into the operation of chit funds because it impairs not only the chit system but also the integrity and operational health of commercial banking.

✓ Chit fund companies are mostly run as local organizations and these companies are not recognized as state level or central level financial institutions as in the case of stock markets and mutual funds. Due to this informality in the operation of chit funds the scrupulous chit operators resort to fleeing with the chit money. The policy makers need to focus on this aspect and design the mechanism to safeguard the interests of the chit subscribers through some such legislation on the lines of deposit insurance scheme.

✓ Chit fund companies are versatile financial organizations which facilitate savings and financial discipline among the people. This inculcates the habit of banking in one way and facilitates capital formation if government can establish a nexus with chit fund companies. Moreover chit funds thus pave the way for financial inclusion and relieve the government and also government agencies of their efforts in promoting the financial or banking inclusion.

✓ Financially Indians are considerably conservative and look for reasonably safe investment avenues. Chit funds are not only very safe but also high return bearing investment alternatives. Simply chit fund is a kind of recurring deposit. Money is regularly saved and the same can be drawn back in times of need. Thus chit funds are highly flexible and remunerative investment modes. Considering these realities the Govt. and the Reserve Bank of India should think of designing a versatile legislative mechanism with a state level focus for systematic operation of chit funds with a protection frame work to the subscribers.
Because of the stringent stipulations and conditions imposed by the government and the RBI on registered chit fund companies in the frame work of non banking financial companies, most of the chit subscribers tend to prefer unregistered chit fund entities which may increase the risk profile of the subscriber. Therefore the government should emphasise on formal authorisation of unregistered chit fund units by the respective Mandal Revenue Authorities (MRO) for operation. This surely assures confidence among the subscribers on the one hand and the government can control the growth of unscrupulous fly by night chit fund operators.

Chit funds are not incorporated under companies Act, and they should not be allowed to accept public deposits. The regulation of chit funds does not come under the purview of Reserve Bank of India. So State governments should take active part in regulating these chit funds under special legislation and implement the strict rules and regulations on public deposits and interest rates. If properly regulated by the State governments, these institutions can better serve the low and the middle income groups.

Though banking experts have pointed out that MFIs have provided finance to 20 million poor people, all over India, where nationalised banks could not reach, many of these companies are collecting as much as 36 per cent interest. In chit funds, the interest on borrowing can be decided by the borrower himself by better managing the group members and making the auction in his favor. The borrower can borrow upon his future subscriptions, and there is no need of pledging his property or jewellery.

Keeping the credit needs of the low income people, government should take an effective action or pass a rule to protect the interests of the poor and safeguard their money. The government should provide the required facilities in the form of subsidy to the chit fund industry to conduct small value chits and encourage the
chit fund industry which is so far working independently without government support.

✔ At country level, there should be chit funds controlling and regulatory authority and every chit fund company should come under its purview. Every member of the chit fund should be given some identity so that the default of the subscriber is controlled.