A ‘conventional chit’, is, in law, a contract between the subscribers and the fore man which provides that the subscribers shall subscribe a certain sum by periodical installments for a definite period. Each subscriber is entitled to the prize amount, as determined by a lot or by auction or in such other agreed manner. The Banking Commission (1972) had recommended to have a uniform chit fund legislation applicable to the whole country. The Reserve Bank, drafted a model bill to regulate the conduct of chit funds for adoption by all the State Governments. A study group on non-Banking Companies constituted by Reserve Bank of India, in June, 1974, recommended that the provisions are applicable to chit fund institutions throughout the country, and would also prevent chit funds from taking advantage of either of the absence of any law governing chit funds in any State or exploit the benefit of any lacuna or relaxation in any State law by extending their activities in such States. The administration of the law left to the State Government concerned which in turn could seek the advice and assistance of the Reserve Bank of India on policy matters. Further there should be no objection to chits being conducted by private limited companies, unincorporated bodies on a limited scale, such as individuals, sole proprietorships and partnership firms.

The bill was enacted by Parliament in the Thirty-third year of the Republic of India as follows.
1. This act may be called the Chit Funds Act, 1982.
2. It extends to the whole of India except the state of Jammu and Kashmir.

Prohibition of chits not sanctioned or registered under the Act:
According to provisions of section 4,

1. No chit shall be commended or conducted without obtaining the previous sanction of the State Government within whose jurisdiction the chit is to be commenced or conducted or of such

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1 Source: Central chit fund act, 1982.
officer as may be empowered by that Government in this behalf, and unless the chit is registered in that State in accordance with provisions of this act.

Filing of chit agreement and commencement of chit (section 7 and section 9)

1. To file the chit agreement with the registrar, the foreman has to submit copy of the chit agreement in duplicate with the registrar. To register the chit agreement, the foreman has to submit the security in the name of the registrar, in the form of deposit of fifty percent of the chit amount in cash in an approved bank, and fifty per cent of the chit amount in the form of bank guarantee from an approved bank. And the foreman should not be sentenced to imprisonment for any offence, and should not violate any of the provisions of the act.

2. After registration, the registrar shall return the duplicate to the foreman with an endorsement that the chit agreement has been registered, after retaining one copy of the chit agreement with him.

3. Every foreman shall file a declaration with the registrar after all the tickets are fully subscribed. Soon the declaration is filed, the registrar grants a commencement certificate after satisfying with all the requirements of registration. The auctions are commenced only after the commencement certificate is obtained. The foreman shall give the copy of chit agreement to all the subscribers before the first draw of the chit.

4. A chit agreement shall not be altered, added to or cancelled except with the consent in writing of the foreman and all the subscribers to the chit.

The duration of the chit:

The duration of a chit shall not extend beyond a period of five years from the date of its commencement. The State Government may permit the duration up to ten years, if satisfied with the, (a) The financial condition of the foreman (b) his method of operation (c) the interests of prospective subscribers (d) the requirements as to security etc.
Conducting Chits (section 16 and section 17)

Every draw shall be conducted in accordance with the provisions of chit agreement on the date, time, and place mentioned in the agreement in the presence of minimum two subscribers, or in the presence of the registrar if minimum two subscribers are not present. The minutes of the proceedings of the draw shall be prepared and should be signed by the foreman, the prized subscriber, and by the two other subscribers. The copies of minutes should be filed with the registrar. The minutes shall clearly state that, the hour and date when proceedings began and ended and the place where draw was held, the number of installments and the names of the subscribers present, the prized subscriber, the amount of discount (which shall not exceed forty percent of the chit amount.), full particulars of the disposal of the unpaid prize amount etc.

Restrictions on the chit business:

1. A firm or other association of individuals or a company or cooperative society, shall commence or conduct chits, with aggregate chit amount, exceeds rupees one lakh. For any other foreman, the aggregate chit amount should not exceed rupees one lakh.

2. The partnership firm or association of individuals, having partners more than four, can conduct the aggregate chit of rupees six lacks.

3. Where the foreman is a company or co-operative society, the aggregate chit amount of the chits conducted by it shall not at any time exceed ten times the net owned funds of the company or co-operative society.

4. No company carrying on chit business shall conduct any other business. Any company carrying on any business in addition to chit business, it shall wind up such other business before the expiry of a period of three years from the commencement of this act.

5. The duration of a chit shall not extend a period of five years from the date of its commencement. The State Government may extend the duration up to ten years if it is satisfied with the financial condition and the method of operation of the business.
6. The amount of discount i.e. sum of money which a prized subscriber required to forego shall not exceed forty per cent of the chit amount.

7. If any company wants to open any branch office or sub-office or any new place of business, it should get prior approval of registrar within whose territorial jurisdiction his principal business is situated. The registrar of new place also exercises same functions as the registrar of the original place of operation, with the consultation of the registrar of original place of operation.

8. For the conduct of the chit, the foreman has to deposit 100% of the chit amount in the name of the registrar in an approved bank.

THE FOREMAN
Section 20: Security to be given by foreman:

(1) For the proper conduct of the chit, every foreman shall, before applying for a previous sanction,

(a) deposit in the name of the Registrar, an amount equal to,

(i) fifty per cent of the chit amount in cash in an approved bank; and
(ii) fifty per cent of the chit amount in the form of bank guarantee from an approved bank; or

(b) Transfer Government securities of the face value or market value (whichever is less) of not less than one and a half times the chit amount in favour of the Registrar, or

(c) Transfer in favor of the Registrar such other securities, being securities in which a trustee may invest money under Section 20 of the Indian Trusts Act, 1882 (2 of 1882), of such value, as may be prescribed by the State Government from time to time.
Subs. By Act 10 of 2001. The original Sec.20 (1) (a) read as,

(a) Deposit in any approved bank an amount equal to the chit amount in the name of the Registrar: or (b) transfer Government securities of the face value or market value (whichever is less) of not less than one and a half times the chit amount in favor of the registrar. If the foreman conducts more than one chit, he shall furnish security in accordance with the provisions in the Act in respect of each chit.

Rights of foreman (section 21)

1. By subscribing the ticket in the chit, the foreman is entitled to obtain the chit amount at the first installment without deduction of the discount. If the foreman has subscribed to more than one ticket, he shall not be eligible to obtain more than one chit amount in a chit without discount.

2. The foreman is entitled to charge an amount not exceeding 5%, of the chit amount, by way of commission, remuneration or for meeting the expenses of running the chit.

3. To interest and penalty, payable on any default in the payment of installment and to such other amounts as may be payable to him.

4. Receive the subscriptions from all the subscribers and distribute the prize amounts to the winner of the chit.

5. To demand sufficient from any prized subscriber for security of the due payments of future subscriptions.

6. Substitute the subscribers in place of defaulting subscribers and perform all the necessary activities for proper conduct of the chit.
Duties of foreman (section 22):

1. The foreman has to pay prize amount to the prized subscriber after furnishing sufficient security by him for the due payment of future subscriptions.

2. The foreman shall pay the prize amount to the prized subscriber within seven days after the date of draw or before the date of the next succeeding installment, whichever is earlier, provided that the prized subscriber shall be entitled to the payment of the prize amount without any security, if he agrees to the deduction of the amount of all future subscriptions.

3. The amount deducted shall be deposited by the foreman in an approved bank and he shall not withdraw the amount deposited except for the payment of future subscriptions.

4. The prized amount due in respect of any draw remains unpaid until the date of the next succeeding installment; the foreman shall deposit the prized amount forthwith in a separate account in an approved bank, and should be intimated in writing to the prized subscriber and to the registrar of such deposit and the reasons.

5. The foreman should distribute the dividend either in cash or by way of adjustment towards the subscriptions payable for the next installment, among all the subscribers.

6. The foreman shall maintain books and records which include the register containing full details of the subscribers and chit agreement, a book containing the minutes of proceedings, a ledger containing details of amounts paid by subscribers and amounts paid to the prized subscriber and the details of the approved bank in which amounts are deposited.

7. The foreman or foremen are jointly shall be liable to account to the subscribers for the amounts due to them.

8. No foreman shall withdraw from the chit until its termination unless such withdrawal in assented to in writing by all the non-prized and unpaid prized subscribers and a copy of such assent has been filed with the registrar.
9. In case of default of a non-prized subscriber in paying his subscriptions, the foreman removes his name from the list of subscribers and a written notice of such removal shall be given to the defaulting subscriber within fourteen days of such removal.

10. A foreman may substitute in the list of subscribers any person in place of the defaulting subscribers whose name has been removed.

The prized subscribers (section 31, 32): Every prized subscriber shall furnish sufficient security for the due payment of all future subscriptions, if he has not offered to deduct the amount of all future subscriptions from the prize amount due to him. The prized subscriber has to pay subscriptions regularly.

Termination of chits (section 40): A chit shall be deemed to have been terminated

1. when the period specified therefore in the chit agreement has expired provided the payment of dues to all the subscribers has been completed.

2. When all the non-prized and unpaid prized subscribers and the foreman consent in writing to the termination of the chit and a copy of such consent is filed with the registrar.

3. Where a foreman dies or becomes of unsound mind or is otherwise incapacitated and the chit is not continued in accordance with the provisions of the chit agreement.

Inspection of records by Registrar (section 46): The registrar, inspect chit books and all the records of a chit during the working hours on any working day at the premises of foreman with or without giving notice and it is the duty of every foreman to produce to the registrar of all records and books.
Winding Up Of Chits (Section 48): A chit may be wound up by the registrar, either on his own motion or on an application made by any non-prized or un-paid subscriber,

1. if the chit has been terminated ,

2. if the foreman commits any such act in respect of the security as is calculated to impair materially the nature of the security or the value thereof,

3. if he fails to deposit any amount required to be deposited under any of the provisions of the act

4. if it is proved to the satisfaction of the registrar that the foreman is unable to pay the amounts due to the subscribers,

5. if the execution or other process issued on an order passed by the registrar in favour of any subscriber in respect of amounts due to him from the foreman in relation to the chit business is returned unsatisfied to whole or in part,

6. if it is proved that there has been a fraud or collusion on the part of the foreman in the matter of taking securities from any prized subscriber,

7. if the foreman has appropriated the prized amount in his capacity as a subscriber without furnishing sufficient security for future subscriptions,

8. if the registrar is satisfied that the affairs of the chit are being conducted in a manner prejudicial to the interest of the subscriber,

9. If it is just and equitable that the chit should be wound up.
Disputes relating to chit business: A dispute touching the management of a chit business shall include:

1. A claim by or against a foreman for any debt or demand due to him from a subscriber, or due from him to a subscriber, past subscriber or the nominee, heir or legal representative of a deceased subscriber whether such debt or demand is admitted or not;

2. A claim by a surety for any sum or demand due to him from the principal borrower in respect of a loan by a foreman and recovered from the surety owing to the default of the principal borrower, whether such sum or demand is admitted or not; and,

3. A refusal or failure by a subscriber, past subscriber or the nominee, heir or legal representative of a deceased subscriber to deliver possession to a foreman of land or any other asset resumed by him for breach of conditions of the assignment.

4. No civil court shall have jurisdiction to entertain any suit or other proceedings in respect of any dispute referred to in sub-section (1).

Settlement of Disputes (section 64 and 66): Any dispute touching the management of chit business shall be referred by any of the parties to the dispute, to the registrar for arbitration if each party thereto is, a foreman, a prized subscriber or a non-prized subscriber, including a defaulting subscriber, past subscriber, or a person claiming through a subscriber, or a deceased subscriber to a chit, a surety of a deceased subscriber to a chit;

1. If the registrar is satisfied that any matter referred to him or brought to his notice is a dispute within the meaning of sec-64, he shall, subject to such rules as may be prescribed, settle the dispute himself, or refer it for disposal to a person appointed by him (nominee).

2. Where any dispute is referred under sub-section (1) for settlement to the nominee, the registrar may, at any time for reasons to be recorded in writing, withdraw such dispute from
the nominee and may settle the dispute himself, or refer it against for settlement to any other nominee appointed by him.

Powers of Registrar or Nominee (section 67)

1. No party shall be represented at the hearing of a dispute by a legal practitioner without the permission of the registrar.

2. If the registrar or nominee is satisfied that any person, whether he is subscriber or not, has acquired any interest in the property of a person who is a party to a dispute, he may order that the person who has acquired the interest in the property may be joined as a party to the dispute, and any decision that may be given by the registrar or the nominee on the dispute shall be binding on the party so joined in the same manner as if he were an original party to the dispute.

3. The registrar or nominee have the same power as are vested in a civil court in the matters of inspection of documents, summoning and enforcing the attendance of persons, receiving evidence on affidavits, requesting any public record or copies thereof from any court or office and issuing commissions for the examination of witnesses or documents.

4. On winding up of a chit, all the chit assets pertaining to such chit shall vest in the registrar or in any person appointed by him for distribution amongst the subscribers to whom amounts are due in respect of the chit.

Role of Reserve Bank; Advisory role: The Reserve Bank may tender to any State Government such advice on questions of policy with respect to this Act as it thinks fit either on its own motion or on a request made by the State Government.

Inspection of records by Reserve Bank of India (section 47): The Reserve Bank of India under the provisions of section 45-N of the Reserve Bank of India act, 1934 (2 of 1934) has the power to inspect the books and records of any foreman, and shall forward the report to the foreman and to the State Government within whose jurisdiction the register office of the
company is situated. The Reserve Bank, if it considers necessary, forward a copy of its report on the inspection of the books and records of a foreman to the foreman for taking necessary action. Banks not to conduct chit business and this act is not applicable to certain chits, started before the commencement of this Act, and any chit amount of which, or where two or more chits were started or conducted simultaneously by the same foreman, the aggregate amount of which does not exceed one hundred rupees.

**The Andhra Pradesh Chit Funds ACT, 1971:**

The state had enacted the AP chit fund Act 1971 and regulated the business. Eleven years later the union government enacted the central chit fund act 1982 taking into consideration the legislation implemented in various states. The central act, 1982 came into force in the state of Andhra Pradesh with effect from 15-09-2008. Before implementing the Central Act in the State, the State Act was amended the existing State Act in accordance with the Central Act. (26-11-2007).

**Duration of chit:** Before amending, the original proviso was, Provided that no chit shall, except with the permission of the Government, extend in duration for a period of more than five years. The duration of a chit shall not extend beyond a period of five years from the date of its commencement : (Proviso subs. By L.A. Bill No. 26 of 2007 (w.e.f. 26-11-2007).

**Amount of discount:** Before amending, it was the amount of discount which the prized subscriber at any installment has to forego; After, it is, the amount of discount not exceeding 40% of the chit amount, which the prized subscriber at any installment has to forego.

Every company having a paid-up capital of less than rupees one lakh and carrying on chit business on the date of commencement of the Andhra Pradesh Chit Funds (Amendment) Act, 2007 shall, before the expiry of a period of one year from such commencement, increase its paid-up capital to not less than rupees one lakh. Provided that no such company shall commence any new chit the duration of which would extend beyond the period of one year unless, it increases its paid-up capital to not less than rupees one lakh.
Where the date of commencement of the Andhra Pradesh Chit Funds (Amendment) Act, 2007, any person is carrying on any business in addition to chit business, shall windup such other business before the expiry of a period of three years from such commencement. Provided that the Government may, if it considers it necessary in the public interest or for avoiding any hardship, extend the said period of three years by such further period or periods so however that the aggregate period including the extended period if any, shall not exceed five years.

Security to be given by the foreman: Before amending the state Act, Security to be given by the foreman was deposit in any approved bank an amount not less than half of the chit amount. After amending it is according to central Act,

(a) deposit in the name of the Registrar, an amount equal to:-
(i) fifty per cent of the chit amount in cash in an approved bank; and
(ii) fifty per cent of the chit amount in the form of bank guarantee from an approved bank; or

(b) Transfer Government securities of the face value or market value (whichever is less) of not less than one and a half times the chit amount in favour of the Registrar.

Section 13: Rights of the Foreman:

The foreman shall be entitled:–
(a) In the absence of any provision in the chit agreement to the contrary, to obtain, the chit amount at the installment specified in the chit agreement: Provided that a foreman shall not be eligible to obtain more than one chit amount in a chit;

(b) To such commission or remuneration not exceeding five percent of the chit amount as may be fixed in the chit agreement

(c) To receive and realize all subscriptions from the subscribers, and to distribute the prize amounts to the prized subscribers and the dividend among the subscribers;
(d) To demand sufficient security from any prized subscriber for the due payment of future subscriptions;

**Section 14: Duties of the foreman:**

(1) The foreman shall, on the prized subscriber furnishing sufficient security for the due payment of future subscriptions, be bound to pay him the prize amount. Provided that the prized subscriber shall be entitled to demand immediate payment of the prize amount after deducting all future subscriptions without any security whatsoever, and in such case the foreman shall, before the date of the next succeeding installment, deposit in an approved bank mentioned in the chit agreement, the amount of future subscriptions deducted as aforesaid and he shall not withdraw the amount so deposited except for payment of future subscriptions.

(2) If owing to the default of the prized subscriber the prize amount due in respect of any drawing remains unpaid before the date of the next succeeding drawing, the foreman shall deposit the same forthwith in an approved bank mentioned in the chit agreement and intimate in writing the fact of such deposit to the prized subscriber.

(3) Every payment of the prize amount, the deposit of the amount of future subscriptions under sub-section (1) and the deposit of the prize amount under sub-section shall be intimated to the subscribers at the next succeeding drawing, and particulars of such payment or deposit entered in the minutes of the proceedings of that drawing.

(5) The foreman shall not appropriate for himself any amount in excess of what he is entitled to under clause (b) of Section 13;

According to Section 13 (1) (b) and 14(4) : foreman not entitled to collect any amount from subscribers of chit for meeting the expenditure connected with the execution of chit agreement, etc. The said expenditure shall be met by foreman from out of commission or remuneration to
which he is entitled not exceeding five percent of the chit amount as may be fixed in the chit agreement. Sub-rule (16) of rule 3 does not confer any right on foreman to collect from subscribers’ amounts incurred by him for running the chit. Memorandum issued by Government clarifying that Rules do not empower the Foreman to levy and collect any amount from subscribers for meeting his expenditure in running the chit and appropriate to himself any excess amount from subscribers more than what is provided under Section 13(1)(b) of the Act towards his commission or remuneration does not suffer from any legal infirmities. Refusal by officers concerned pursuant to the said Government memorandum to register the Bye-laws unless the relevant bye-law dealing with the procedure for meeting the expenditure relating to execution of chit agreement, etc., is deleted from proposed bye-laws submitted for registration—not illegal. Held that words or for meeting the expenses, if any’ be read in Section 13(1)(b) of the Act to construe it so as to implement the object and purpose enshrined in Section 14(4) which prohibits foreman from appropriating for himself any amount in excess of the amount to which he is entitled under Section 13(1)(b) of the Act. Aforesaid provisions of the State Act are in pari materia with the relevant provisions in Central Act (Chit Funds Act, 1982). Subsequent statute in pari materia can be pressed in aid in the event of any doubt in the earlier enactment.

(Section 53- A): Disputes and Arbitration (Inserted by L.A. Bill No. 26 of 2007 w.e.f. 26-11-2007.): Disputes relating to chit business: (1) Notwithstanding anything contained in any other law for the time being in force, any dispute touching the management of a chit business shall be referred by any of the parties to the dispute, to the Registrar for Arbitration if each party thereto is one or the other of the following, namely

(a) a foreman, apprised subscriber or a non-prized subscriber, including a defaulting subscriber, past subscriber or a person claiming through a subscriber or a deceased subscriber to a chit;

(b) A surety of a subscriber, past subscriber, or a deceased subscriber;

(2) The decision of the Registrar shall be final regarding the disputes. (3) No civil Court shall have jurisdiction to entertain any suit or other proceedings in respect of any dispute referred to in sub-section (1).
Powers of Registrar (Section 53-D):

(i) The Registrar hearing a dispute under Section 53-c, shall in addition to the powers conferred on him under that section, have the same powers as are vested in a Civil Court while trying a suit under the Code of Civil Procedure, 1908 (Central Act 5 of 1980) in respect of the matters of summoning and enforcing the attendance of persons and examining them on oath, requiring the discovery and inspection of documents, receiving evidence on affidavits, requisitioning any public record or copies thereof from any Court or office, issuing commissions for the examination of witnesses or documents, and any other matter which may be prescribed.

(ii) Except with the permission of the Registrar no party shall be represented at the hearing of a dispute by a legal practitioner.

Section 55: Power of Registrar to condone delay in certain cases; The Registrar may, in his discretion and upon an application in writing by any foreman made within the period of fourteen days specified in any of the provisions of sub-section (2) of section 20, sub-section (2) of Section 21, section 29 and section 32, allow to the foreman further time not exceeding fifteen days to file a copy of any document under any of the provisions referred to above.

Section 56: Penalties: (1) Whoever contravenes or abets the contravention of any of the provisions of sub-section (1) of Section 3 or Section 4, or sub-section (1) of Section 7, or Section 7A, or Section 7B, shall be punishable with imprisonment for a term which may extend to two years, or with fine which may extend to five thousand rupees, or with both.

(2)(c) Any foreman who fails to comply with the requirements of the chit agreement shall be punishable with fine which may extend to three thousand rupees.

Section 65: The provisions of this Act shall not apply in respect of (1) any chit started and conducted before the commencement of this Act, or (2) any chit, the chit amount of which or where two or more chits are started or conducted simultaneously by the same foreman, the aggregate chit amount of which does not exceed one hundred rupees.
Glossary

1. **Auction** – Auction is a procedure for identification of the non-prized subscriber who wants to take a chit amount at the highest permissible discount. All non-prized subscribers who have paid their installments up to date are allowed to participate in the auction for bidding the highest discount, within a period of five minutes, allowed for each auction.

2. **Contribution** – The amount payable by each member of the chit fund every month is called the contribution.

3. **Discount** – The difference between chit value and the amount at which a successful bidder takes a chit in an auction is known as auction discount.

4. **Dividend** – Auction discount minus company commission (5% of chit value) is the total group dividend. Total group dividend is distributed equally amongst all the subscribers. This dividend is deducted from the next installment payable by the subscriber.

5. **Chit agreement** – means the document containing the articles of agreement between the foreman and the subscribers relating to the chit.

6. **Chit amount** – means the sum-total of the subscription payable by all the subscribers for any installment of a chit without any deduction of discount.

7. **Prize amount** – means the difference between the chit amount and the discount.

8. **Subscriber** – includes a person who holds a fraction of a ticket and also a transferee of a ticket or fraction thereof by assignment in writing or by operation of law.

9. **Ticket** – means the share of a subscriber in a chit.

10. **Prized subscriber** - a subscriber who has either received or entitled to receive the prize amount.
11. **Deposit** - The term ‘deposit’ is defined under Section 45 I(bb) of the RBI Act, 1934. ‘Deposit’ includes and shall be deemed always to have included any receipt of money by way of deposit or loan or in any other form but does not include:

- amount raised by way of share capital, or contributed as capital by partners of a firm;
- amount received from scheduled bank, co-operative bank, a banking company, State Financial Corporation, IDBI or any other institution specified by RBI;
- amount received in ordinary course of business by way of security deposit, dealership deposit, earnest money, advance against orders for goods, properties or services;
- amount received by a registered money lender other than a body corporate;
- amount received by way of subscriptions in respect of a ‘Chit’.

12. **Public Deposit** - Paragraph 2(1)(xii) of the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 defines a ‘public deposit’ as a ‘deposit’ as defined under Section 45 I(bb) of the RBI Act, 1934 and further excludes the following:

- amount received from the Central/State Government or any other source where repayment is guaranteed by Central/State Government or any amount received from local authority or foreign government or any foreign citizen/authority/person;
- any amount received from financial institutions;
- any amount received from other company as inter-corporate deposit;
- amount received by way of subscriptions to shares, stock, bonds or debentures pending allotment or by way of calls in advance if such amount is not repayable to the members under the articles of association of the company;
- amount received from shareholders by private company;
- amount received from directors or relative of the director of an NBFC;
- amount raised by issue of bonds or debentures secured by mortgage of any immovable property or other asset of the company subject to conditions;
- the amount brought in by the promoters by way of unsecured loan;
- amount received from a mutual fund;
- any amount received as hybrid debt or subordinated debt;
- any amount received by issuance of Commercial Paper.

Thus, the directions exclude from the definition of public deposit, amount raised from certain set of informed lenders who can make independent decision.