Chapter 7

Summary, Findings and Suggestions
CHAPTER VII
SUMMARY, FINDINGS AND SUGGESTIONS

7.1. SUMMARY OF FINDINGS

INTRODUCTION

This study is an attempt to find out the socio-economic development of Kanyakumari District through Chit funds. The study has helped immensely in understanding the factors which play an important role in the socio-economic development of the chit subscribers and chit foremen.

The approach to the study is both descriptive and analytical. The researcher has used both primary and secondary data for writing this thesis. Two interview schedules have been used to collect the primary data from the chit subscribers and chit foremen. For conducting the survey, 200 chit subscribers and 70 chit foremen have been selected and interviewed personally to collect all the necessary information. This study
covers a period of ten years from 1990 to 1999.

The required secondary data have been collected from the records of the Nagercoil Registrar Office and the Marthandam Registrar Office which are the two Registrar Offices available in Kanyakumari District, Government Statistical Department, Nagercoil, Lead Bank, Nagercoil, Monthly magazine chittu Murasu, the book Chit Fund, a few articles of Dr. C.P.S. Nayar and Prof. Radhakrishnan, Souvenir of Economic Liberalisation and Chit Funds, the compilation of the seminar papers on the Management of chit Funds and the like are some of the other major sources of secondary data. The researcher has personally interviewed the officers and Chit Inspectors of Registrar Offices to get additional information regarding the performance of chit funds.

The first chapter deals with the introduction. The second Chapter starts with the review of Chit Funds under the structure of the Indian Financial system and the Chit funds fall under the private sector of other financial institutions. Under financial institutions, chit funds fall under the head Non-Banking Financial Companies / lintermediaries and under the categorisation of Non-Banking Financial Companies, Chit funds come under the head Miscellaneous Non - Banking companies.
The Contribution of Chit fund to the Indian Financial system is significant to the extent of 16,644.5 crores (4.7%) out of the total contribution of NBFCs 3,57,153 crores and when comparing NBFCs deposits with scheduled commercial bank’s deposits they form 71.95%.

In Kanyakumari District, there is an increasing trend in chit fund business for the 10 year period under study. The total chit amount registered has increased from 1.43 crores to 4.17 crores. The average percentage of Chit fund to total bank deposit is 2.26% Generally the number of men registered for chit fund is increasing and women registered for chit fund is declining. During the 10 year period under study, the year 1998 was considered to be the peak period for chit fund because in that year the number of registration, amount of chit fund, number of arbitration cases filed and even the amount of arbitration were high.

It is noted that the subscribers are shifting from low monthly instalment to higher monthly instalment payment. In the case of chit amount also, people have a change from lower amount to higher amount. There is a tendency of the foremen to shift from Individual registration to partnership firm registration and from partnership firm to chit fund companies.

Regarding the chit fund registration in Nagercoil Registrar Office, the following comparisons have been made.
There is a negative relationship (-.34) between men and women who have registered for chit funds. The average men registration is 77.29% and the women registration is 36.12% There exists a positive relationship (.37) between the number of chits registered and the number of arbitration cases filed. The average arbitration amount to the total amount is 6.40%. As the amount of chit increased the arbitration amount also increased. The Chit amount registered has been gradually increasing over the 10 years with the positive relationship of 0.10. The following hypotheses were tested in the regard.

1. There is no significant difference in the number of chits registered over the 10 years.

2. There is no significant difference in the number of men registered for chit funds over the 10 years.

3. There is no significant difference in the number of women registered for chit funds over the 10 years.

4. There is no significant difference in the chit amount over the 10 years.

5. There is no significant difference in the arbitration amount over the 10 years.

6. There is no significant difference in the number of arbitration cases filed over the 10 years.
7. There is no significant difference in the number of persons who filed the arbitration cases over the 10 years.

8. There is no significant difference in the Individual form of chit registration over the 10 years.

9. There is no significant difference in the Partnership Firm form of chit registration over the 10 years.

10. There is no significant difference in the Company form of chit registration over the 10 years.

The results revealed that there were no significant differences in the number of chits registered, number of arbitration cases filed and the number of persons who filed the cases. There were significant differences in the number of men registered for chit funds, women registered for chit funds, chit amount registered, arbitration amount, individual form of registration, partnership firm form of Registration and Company form of registration. Out of the ten factors taken for consideration seven factors were significant and three were not so significant. Therefore, it is concluded that the overall change in the chit registration of Nagercoil Registrar Office is good during the 10 years period from 1990 to 1999.
Regarding the correlation co-efficient between the identified factors and the number of years it is high (.93) in the case of company form of chit registration where the numbers increased from 19 to 93, next is in the registered chit amount (.91) which is followed by the number of men registered for chit fund (.86), arbitration amount (.84), Partnership firm form of chit registration (.64), number of total chit registration (.58) and the number of arbitration cases filed (.51). In the case of Individual form of chit registration, it shows a high negative relationship (-.98) because the number of registration under this case decreased from 92 to 16 which is followed by the number of women registered for chit funds (-.95). Here the number decreased from 57 to 25 and the number of persons who filed cases (-.60).

In the Marthandam Registrar Office also, the development of chit fund shows an increasing trend. There exists a positive relationship between men and women who have registered funds to the extent of .78 which means both the registrations were steadily increasing year after year. People tend to save more and ready to spare more as their monthly contribution towards chit funds. The relationship between instalment amount over the number of years was .22. The general tendency of the chit subscribers and chit foremen is to increase their chit amount. Their relationship over the number of years was .002 which is insignificant. With regard to the structural changes the following hypotheses were framed and tested.
1. There is no significant difference in the number of chits registered over 10 years.

2. There is no significant difference in the Individual form of chit registration over 10 years.

3. There is no significant difference in the Partnership Frim form of chit registration over 10 years.

4. There is no significant difference in the Company form of chit registration over 10 years.

5. There is no significant difference in the number of tickets registered over 10 years.

6. There is no significant difference in the amount of chit registration over 10 years.

7. There is no significant difference in the women registered for chit funds over 10 years.

8. There is no significant difference in the men registered for chit funds over 10 years.

With the available data, the researcher has taken only eight factors for comparison. Out of them, six factors turned out to be significant and two did not. The results are as follows.
There were significant differences in the number of chits registered, Partnership Firm form of chit registration, Company form of chit registration, chit amount registered, number of women registered for chit funds and number of men registered for chit funds. There were no significant changes in the Individual form of chit registration and the number of tickets registered.

When comparing the relationship of the factors over 10 years, it was the highest (.89) for the chit amount registered which was followed by number of women registered for chit funds (.84), number of chits registered (.75), partnership firm form of registration and company form of registration both were ranked equally (.71), number of men registered for chit funds (.65) number of tickets registered (.012) and Individual form of chit registration (.01) However, the overall performance was good.

The fourth chapter deals with the role of chit funds in the socio-economic development of chit subscribers in Kanyakumari District. During the year 1999, the total chit amount registered was Rs.3,51,18,500 and the amount of arbitration cases filed was Rs. 41,43,555 constituting 11.80% in Kanyakumari District. In the Nagercoil Registrar Office, total chit amount registered
was Rs.2,65,82,500 and the amount of arbitration was Rs.32,31,500 constituting 12.16%. In the Marthandam Registrar Office, the total chit arbitration amount was Rs.9,12,055 as against the total chit amount of Rs.85,36,000. The percentage of the same was 10.68. In general the percentage of arbitration was more in the Nagercoil Registrar Office when compared to the Marthandam Registrar Office.

The total number of chits registered was 309 and the total number of arbitration cases filed was 138 constituting 44.66%. In the Nagercoil Registrar Office, the number of chit registration was 217 whereas the number of arbitration cases filed was 107 constituting 49.31%. In the Marthandam Registrar Office, the number of chit registration was 92 and the number of arbitration cases filed was 31 which constitutes 33.69%. The percentage of arbitration cases filed was more in the Nagercoil Registrar Office than in Marthandam Registrar Office.

Since the arbitration percentage is significant, the researcher has made an attempt to find the influencing factors on the repayment of the sample chit subscribers. For this purpose the chit subscribers were divided into four categories. They are those who pay the chit amount before due date, on due date, when supervisors come for collection and after getting reminders or filing arbitration cases.
The study reveals that out of 200 sample chit subscribers, 18 (9%) paid the monthly instalment of chit amount before due date, 74 (37%) on due date, 48 (24%) when supervisors come for collection and 60 (30%) after getting reminders. The researcher has identified 10 factors which may be influencing the repayment performance of the sample chit subscribers. The following hypotheses were framed and tested in this regard.

1. There is no significant difference between sex and repayment performance.

2. There is no significant difference between age and repayment performance.

3. There is no significant difference between caste and repayment performance.

4. There is no significant difference between occupation and repayment performance.

5. There is no significant difference between size of the family and repayment performance.

6. There is no significant difference between education and repayment performance.

7. There is no significant difference between utilisation of chit amount and repayment performance.
8. There is no significant difference between chit amount and repayment performance.

9. There is no significant difference between purpose of joining the chit and repayment performance.

10. There is no significant difference between motivation through chit funds and repayment performance.

The test revealed the following results.

a) Out of 200 sample chit subscribers there were 146 males and 54 females. It is observed that there was no significant difference between sex and repayment performance.

b) There were 112 subscribers below the age group of 50 and 88 above the age of 50. It is concluded that there was no significant difference between age and repayment performance.

c) Out of 200 sample subscribers 182 belonged to BC, 8 to MBC, 6 FC and 4 SC/ST. The test reveals that there was significant difference between caste and repayment performance.

d) There were 76 employees, 38 business persons and 44 self-employed among sample chit subscribers. The conclusion derived from the test was that there was no significant difference between occupation and repayment performance.

e) Regarding the family size, 70 belonged to 2-4, 76 to 4-6, 30 to 6-8 and 24 to 8-10. The test showed that there was no significant difference between size of the family and repayment performance.
f) Among the chit subscribers, 6 were illiterate, 12 had completed Primary education, 16 had completed Middle School studies, 26 had completed High School studies, 36 had completed Higher Secondary studies, 78 Graduates, 18 Post Graduates and 4 others were Doctors, Engineers and other technicians. From the test, it is clear that there was significant difference between education and repayment performance.

g) There were 38 subscribers who utilised the chit amount to repay the old debt, 58 for their main activities, 74 for family expenditure and 30 for giving further loan or use it for their subsidiary activities. The conclusion derived from the test is that there was no significant difference between utilisation of chit amount and repayment performance.

h. There were 52 who joined the chit funds, upto Rs.25,000, 34 from Rs.25,000 to Rs. 50,000, 56 from Rs. 50,000 to 75,000, 30 from Rs.75,000 to 1,00,000 and 28 above Rs.1,00,000. It is concluded from the test that there was no significant difference between chit amount and repayment performance.

i) Regarding the purpose for which the sample chit subscribers joined the chit fund, there were 48 to repay the old debt, 42 to start a new activity, 26 to get discount/dividend, 23 to avoid buying on credit, 41 to get easy finance and 20 because of
the persuasion of the foremen. It is concluded that there was significant difference between purpose for joining the chit and repayment performance.

j) Out of 200 sample chit subscribers, 33 were motivated by Bonus, 39 to get dividend, 113 for discount and 15 for some other reasons for saving, investing and the like. The result reveals that there was no significant difference between motivation and repayment performance.

Out of the ten factors considered for the test, only 3 had significant difference in the repayment performance. They were caste, education and purpose for which they joined the chit. Other factors like age, sex, occupation, size of the family, utilisation of chit amount, amount of chit and motivation had no influence in the repayment performance of the sample chit subscribers.

To find the social impact of the subscribers, 20 components were identified and scores were allotted. Each component was measured with the help of 5 statements and hence there was a total of 100 statements. For every statement, a question with Yes or No response was incorporated in the interview schedule. One score was given to the yes response and zero value was given to 'no' response.
The selected factors were improvement in friendship, improvement in contact with relations, improvement in charity outlook, membership in various association, development in leadership quality, increase in status of life, increase in skill and knowledge, involvement in social service, interest in religious activities, involvement in recreation, participation in various activities, social welfare services, change in the living lifestyles, change in the behaviour lifestyles, cultural change, change in the ethical values, social control, social mobility, change in the social attitude and social change due to technology.

On the basis of the scores, the sample chit subscribers, were classified into low level, medium level and high level. The high level was fixed for the score of 73 and above, medium level for 38 to 72 and for low level, it was fixed at 37 and below. In this study, there were 43(22%) who came under low level, 121(61%) under medium level and 34(17%) came under high level social impact. The mean score was 55 and standard deviation was 18. There were 10 components which fell below average and 10 components were above average. The co-efficient of variation of the high level social impact of the subscribers was 6.82, for medium level it was 16.57 and for the low level it was 15.85. To analyse the social impact, the following hypotheses were framed and tested.
1. There is no significant difference between chit amount and the levels of social impact.

2. There is no significant difference between instalment amount and the levels of social impact.

3. There is no significant difference between chit payment period and the levels of social impact.

4. There is no significant difference between income and levels of social impact.

5. There is no significant difference between education and levels of social impact.

6. There is no significant difference between occupation and levels of social impact.

7. There is no significant difference between type of family and levels of social impact.

8. There is no significant difference between age and levels of social impact.

To analyse the social impact of the chit subscribers, the researcher took 3 factors such as chit amount, Instalment amount and chit payment period as main factors and the study reveals that the difference was significant in the case of chit amount and
the difference was not significant in the instalment amount and the payment period of the chit. The researcher identified the rest of the 5 factors as the influencing factors of social impact. They were income, education, occupation, type of family and age. The changes were significant in the factors such as education, occupation and age but they were not significant in the factors income and type of family.

The economic impact of the chit subscribers was measured with the help of economic impact scale which consisted of 5 components namely income, expenditure, savings, Business investments and Personal investments. Each component was given 20 scores and the total scores were 100. The changes of the 5 components before and after availing of the benefit of chit were ascertained and converted into percentages. The levels of economic impact were measured with the help of Mean and standard deviation of the scores obtained. The low level was fixed for those who got the score 10 and below, medium level score was in between 11 and 55 and high level was above 56.

The study reveals that there were 22 (11%) subscribers who had low level economic impact, 155(77%) had medium level and 23(12%) had high level economic impact. The co-efficient of variation for the low level economic impact was 29.54, medium level economic impact was 36.80 and high level economic impact was 43.48.
There were 177 subscribers who had a change in their income, 193 changed their expenditure pattern, 193 increased their savings and 87 increased their personal investment. Out of 38 business subscribers, 26 increased their business investments. The following hypotheses were framed and tested in this respect.

1. There is no significant difference in the chit amount and levels of economic impact.

2. There is no significant difference in the chit payment period and the levels of economic impact.

3. There is no significant difference in the instalment amount and the levels of economic impact.

4. There is no significant difference in the occupation and the levels of economic impact.

5. There is no significant difference in the age and levels of economic impact.

The researcher took chit amount, chit payment period and the instalment amount as main factors and factors such as occupation and age as influencing factors. The study reveals that the differences were significant in all the three main factors and there was good association (.56) between the influencing factors of occupation and age and the levels of economic impact.
Regarding the attitude of the sample chit subscribers towards chit fund, the study reveals that out of 200 subscribers, 176 felt that the chit funds were convenient to them in all respects, 162 felt that the amount was adequate to them, 155 were satisfied with the chit period, 147 felt that there was no delay in getting the amount cleared and for 145 subscribers expansion of the activities were possible through chit funds.

With regard to the problems faced by the sample chit subscribers, there were 27 who had problems with the foremen in getting the chit amount in time, 24 found it difficult to utilise the amount properly and 19 subscribers couldn't repay the chit amount in time because of the problems in connection with the income generation out of the chit amount.

The fifth chapter deals with the socio-economic development of chit foremen in Kanyakumari District. The social impact of the sample chit foremen was measured with the help of the same social factors which were applied for the chit subscribers. The average score was 251 and the overall percentage was 71.7%. There were eight factors (40%) below average and twelve factors (60%) above average.

To analyse the social impact of the chit foremen, a social impact scale was devised whereby the total scores were divided
into three levels with the help of mean and standard deviation of the scores obtained. The mean was 71.7 and standard deviation was 10.42. Thereby, the score for the high level social impact was 82 and above, the medium level lay between 62 and 81 and the score for the low level was 61 and below. In the present study, out of 70 sample foremen, there were 12(17%) foremen who had low level social impact, 41(59%) had medium level and 17(24%) had high level social impact. The co-efficient of variation for low level social impact was 9.13, for medium level social impact, it was 4.94 and for high level social impact, it was 3.4% . In this regard, the following hypotheses were framed and tested.

1. There is no significant difference between the chit amount and the levels of social impact.

2. There is no significant difference between the number of chits conducted and the levels of social impact.

3. There is no significant difference between the experience in chit business and the levels of social impact.

4. There is no significant difference between age and the levels of social impact.

5. There is no significant difference between size of the family and the levels of social impact.
6. There is no significant difference between occupation and the levels of social impact.

7. There is no significant difference between education and the levels of social impact.

8. There is no significant difference between the purpose for which they are running the chit business and the levels of social impact.

9. There is no significant difference between sex and the levels of social impact.

10. There is no significant difference between type of family and the levels of social impact.

The researcher identified chit amount, number of chits conducted and experience in chit business being the main factors which determined the social impact of the chit foremen. The results of the hypotheses are as follows.

a. There were 58 (83%) of the sample chit foremen who were running chit business upto Rs.5,00,000, 9(13%) between Rs.5,00,000 and Rs.20,00,000 and only 3(4%) had chit funds above Rs.20,00,000.

The result reveals that there was significant difference between chit amount and the levels of social impact.
b) There were 55 (79%) foremen running the number of chits up to 4. 14 (20%) running chits between 5 and 12 numbers and there was only one foreman who had more than 13 number of chits.

   It has been observed that there was significant difference between the number of chits and the levels of social impact.

   c) There were 20 (28%) foremen who had experience up to 5 years, 48 (69%) between 6 and 25 years and 2 (3%) above 25 years.

   It is concluded that there was significant difference between experience and the levels of social impact.

   The researcher identified the age of the foremen, size of the family, occupation, education, the purpose for which they are running the chit business, sex and type of family were the influencing factors in determining the social impact of the chit foremen.

   d) Out of the 70 sample chit foremen, 7 completed high school studies, 13 Higher secondary studies, 23 were graduates, 9 were post graduates, 11 Technically qualified and 7 others were Doctors, Engineer and the like.

   It is concluded from the test that there was no significant difference between education and level of social impact of the chit foremen.
e) There were 25 (36%) chit foremen who had chit business alone, 19 (27%) were doing chit business besides their other type of business, 18(26%) were employed, 6 were housewives and 2 were cultivators.

The conclusion from the test showed that there was significant difference between occupation and levels of social impact.

f) There were 49 (70%) foremen below the age of 50 and 21 (30%) above the age of 50.

The study revealed that there was no significant difference between age and levels of social impact.

g) There were 20(29%) foremen having the family size upto 3, 48(69%) having the family size between 4 and 6 and only 2 had family size between 7 to 9.

The conclusion derived from the test was that there was significant difference between the size of the family and the levels of social impact.

h. Regarding the purpose for which the foremen were running the chit business, there were 22 (31%) due to unemployment, 21 (30%) to get additional income, 9(13%) because it was their family business and 18(26%) because of their own interest.
It is concluded that there was no significant difference between the purpose and the levels of social impact.

i) There were 54(77%) foremen who came under Nuclear family type and 16(23%) under Joint family system.

It is concluded that there was no significant difference between type of the family and the levels of social impact.

j) Among the 70 chit foremen, there were 61(87%) male and 9(13%) female.

It is observed that there was no significant difference between sex and the levels of social impact.

Out of the 10 identified factors, three main factors namely chit amount, number of chits conducted and experience in the chit business had significant differences. Moreover other factors education and occupation were also had significant differences in the social impact. The factors age, size of the family, purpose of running chit business, type of the family and sex had no significant differences in the social impact of the chit foremen.

The researcher measured the economic impact of the chit foremen with the help of the impact scale. Regarding the scores of the economic impact of the sample chit foremen, the component income (448%) ranked first, personal investment (276%) second,
savings (172%) third, expenditure (148%) fourth and Business investment (82%) fifth. The average score was 225.26 and the standard deviation was 154.67. However, the overall scoring position was good.

The high level economic impact was for those whose scores were above 380 the medium level was for those who got the scores in between 71 and 379 and for low level, it was 70 and below. From the study, it is clear that there were 21 (30%) foremen who had high level economic impact, 41 (59%) had medium level and 8 (11%) had low level economic impact. The co-efficient of variation for low level economic impact was 8.86, for medium level, it was 40.16 and for high level it was 17.83.

The researcher identified three dominating factors such as chit amount, number of chits and experience in the chit business in determining the economic impact of the chit foremen. Seven influencing factors had also been identified. They were age, occupation, size of the family, type of the family, utilisation of chit amount, number of defaulters and the purpose for which they are running chit business. The following hypotheses were framed and tested in this regard.

1. There is no significant difference between chit amount and the levels of economic impact.
2. There is no significant difference between number of chits conducted by the foremen and the levels of economic impact.

3. There is no significant difference between foremen's experience in the chit business and the levels of economic impact.

4. There is no significant difference between age and levels of economic impact.

5. There is no significant difference between occupation and levels of economic impact.

6. There is no significant difference between size of the family and levels of economic impact.

7. There is no significant difference between type of the family and the levels of economic impact.

8. There is no significant difference between utilisation of chit amount and the levels of economic impact.

9. There is no significant difference between number of defaulters and the levels of economic impact.

10. There is no significant difference between the purpose for which they are running the chit business and the levels of economic impact.
From the result, it is clear that there were significant difference in the chit amount, number of chits, experience in the chit business, occupation and the utilisation pattern of the chit amount. There were no significant differences in the factors such as age, size of the family, type of the family, number of defaulters and the purpose of running the chit business.

Since the success of the chit business basically lies on the income derived from the chit, the researcher made an attempt to compare the chit income with six major factors which contributed much to the chit income. They were monetary motivation, non-monetary motivation, selection of prized subscribers, nature of contacting the subscribers, form of chit registration and the number of assistants they had for collection of chit amount.

From the survey, it is found that there were 60(86%) foremen who had chit income upto Rs.40,000, 5(7%) between and 2(2%) Rs.40,000 and 80,000 3(4%) between Rs. 80,000 and for Rs. 1,20,000 and above 1,20,000. and 2 (3%) for Rs. 1,20,000 and above. The following hypotheses were set up in this regard.

1. There is no significant difference between chit income and monetary motivation.

2. There is no significant difference between chit income and non-monetary motivation.
3. There is no significant difference between chit income and the selection of prized subscribers.

4. There is no significant difference between chit income and the nature of contacting the subscribers.

5. There is no significant difference between chit income and the form of chit registration.

6. There is no significant difference between chit income and the number of assistants they have for the collection of chit amount.

It has been observed from the study that there were significant differences in the non-monetary motivation, nature of contacting the subscribers, form of chit registration and the number of assistants for collection of chit amount. There were no significant differences in the monetary motivation and the mode of selecting the prized subscribers.

Their degree of relationship was also measured to find the importance of the significant factors. Accordingly, the factor number of assistants for collection ranked first with the association of 6.90 which was followed by the form of chit registration (2.94), nature of contacting the subscribers (1.85) and then non-monetary motivation (1).
Regarding the defaulters, the chit foremen felt that the defaults were due to the sickness of the subscribers, loss in business, low income generation, unavoidable expenses in the family or business and the like reasons. Regular defaults were rare and generally most of the defaulters were business people only.

The sample chit foremen's major problem was in the recovery of the default amount. The process of arbitration was somewhat difficult with so many formalities and they had to wait for a fairly long period to have a settlement from the chit Registrar.

The seventh chapter discusses the cost implications of chit funds. There were many versions as to the manner or method in which the gains or losses to individual members arising from their chit fund transactions were to be computed. The average member of a chit fund is one who is not aware of the mysteries of cost calculations, whose unequal payments in different instalments are concerned. There were 8 methods for Comparison. Among them, the first 7 methods had their own defects with regard to time factor, interest rate, time value, re-investment at the Internal Rate of Return, opportunity cost, cut-off rates and the like. For this purpose, the subscribers were divided into Borrower-member receiving interest, Borrower-member paying interest, Investor-member paying interest and Investor-member receiving interest.
The recommended 8th method is the one which delinks cash inflows and outflows. Cash outflows are uneven but compulsory whereas cash inflows depend upon the option of bidding. The cost of bidding for a member is worked out by the compound interest of 12% which is the same for all the members. This method is acting as a ready reckoner to give indications to the members of the chit fund as to what extent they can bid the amount without losing much. This method is simple to comprehend, easy to work out, consistent and practical in giving guidance to the members of the chit fund and therefore is recommended as a good method for determining the cost of chit finance.

The average cost of an early borrower ranges between 18 to 24% which is a very reasonable one. Chit instruments offer an IRR of 10 to 13% to the investor. But the foremen's commission of 5% is recognised only at the termination of the chit because of the default. The returns of a large-foremen company measured by the internal rate of return (IRR) after tax cashflows, worked out to be 5 to 6 percent while that of a small foreman was found to be 13 percent. The chits were found to be less risky than other credit instruments because in a well managed large foreman company, the bad debts were around 1.5 percent of the aggregate chit value.
7.2. CONCLUSION

In the Financial Spectrum of India, Chit business plays a small (4.7%) but significant role. Like a subterranean river, it flows along with banking and Finance. Yet it is unique in concept, different in process, very democratic in system and direct in its effect on the participants. In recent times, there has been an exponential growth of chit fund companies in the country. More than 20,000 Registered companies and several hundreds of unregistered firms generate an estimated turnover of more than Rs.30,000 crores. With the advent of the chit fund Act of 1982, the chit field has gained stature and anchorage, got entrenched as an effective instrument in the informal money market. Statutory regulation ushered system and discipline into the field and the resultant stability and growth attracts crores of people to come and conduct the business under the legal umbrella. The Act was introduced after a lot of analysis and indepth study by the governmental committees of the behavioural pattern of the chit promoter and subscriber and was well based on scientific and economic rationale.

In Kanyakumari District, there are 639 registered foremen having the chit amount of more than 4 crores. The structural changes in the registration of chit funds in Kanyakumari District over 10 years are good. There are 78% of the chit subscribers
and 83% of the chit foremen have crossed the medium level of social impact. There are 89% of the chit subscribers and 89% of the chit foremen have crossed the medium level of the economic impact. Thus, economically both the groups are viable and equally good but socially chit foremen are better than chit subscribers. Therefore, it can be firmly concluded that chit funds are playing a very good role in the socio-economic development of Kanyakumari District.

Thus, Chits are definitely playing a big role in the society and the financial fields Chit Funds are big depositor in the banks. Chit circulates a high quantity of money. Chit helps the small investor to earn handsome returns. Chit lends to the domestic and commercial person who is not entertained at the banks. Thus, recognised or not, appreciated or deplored, the fact cannot be denied that chit is socio-economic entity.

The success of the chit business basically lies in the hands of the chit foremen. To be successful, one has to take necessary steps to increase the collection of money, increase chit amount, adopt suitable procedures to contact subscribers and to give more importance to the non-monetary that is, service-oriented motivation than monetary motivation. At the time of selecting the subscribers, qualified and employed persons can be selected to
have prompt payment. To improve the economic impact, the foremen can utilise the chit income properly by investing the same productively again in the chit business or in some interest yielding securities.

Singapore High Court Judge rightly observed that “A Chit fund if properly managed is an excellent co-operative scheme but in the hands of an unscrupulous person it can be an instrument of gigantic fraud.”

The estimated aggregate amount of total transactions of the Registered Chit Funds in the whole of India is about Rs. 10,000 crores per annum and that of the unregistered companies is at least 50 times of this amount. If the legislations are more reasonable and user friendly, the operators in the unregistered sector can also be brought into the main stream in the overall interest of our economy.

In the light of the present study, the following issues have been identified for future research.

1. A Comparative study can be conducted on registered and unregistered chit funds.

2. Chit fund deposits can be compared with other forms of deposits.
3. A detailed analysis can be carried on the financial implications of chit funds on both the chit subscribers and chit foremen.

4. A Comparative analysis can be made on the different types of chits.

5. The Chit holders can be compared with other deposit holders.

6. An opinion survey can be conducted on the basis of utilisation of the chit amount or chit income on productive and unproductive purposes.

7. A detailed study on the nature of defaulters, reasons for the default, the effectiveness of arbitration proceedings and their results can be conducted.

8. The role of Chit funds as a branch of Non-Banking Financial Companies and its significance can be studied.

9. An evaluation of chit funds from its origin till date with the comparison of its applicability and adoptability in the modern technological world.

10. A study can also be conducted to know whether chit fund becomes an effective means of finance for the small scale sector as an alternative to institutional finance.
The researcher would feel aptly rewarded if the present study paves the way for the above and many more similar studies in the future in this significant field which has richer socio-economic potentialities.

7.3. Present Day Problems of Chit Fund

1. There is a provision in the Act vide section 13 limiting the aggregate chit amount. The limit is Rs.25,000 for individual chit funds and Rs.1,00,000 for four partners and more. For incorporated limited companies there must be a minimum paid up capital of Rs.1,00,000 and the aggregate chit amount is limited to ten times the net owned funds. Such a ceiling does not exist for any other business.

2. The maximum ceiling of 30% discount as fixed in section 6(3) deprives the needy subscribers of bidding to become prized subscribers. It becomes impossible to the subscribers to draw their chits as and when required. This is the world problem which is hindering the smooth flow of our business.

3. Considering the inflationary trends in salaries and other expenses, the foreman’s commission of 5% [vide section 21 (b)] of chit amount fixed long ago still remains unaltered even after 100 years. It is becoming extremely difficult for the foremen to
run the business profitably in these days of inflation increased by hundred times

4. Chit foremen are prohibited from engaging in any other business.

5. The Chit Funds Act discriminates in favour of the subscribers and the foremen are subject to harsh provisions with very little protection. For instance, if the prized subscribers pay their instalments promptly on the due dates, the business can go on smoothly. But that does not happen in the day to day business. On the other hand, the Act provides for severe penalty and even imprisonment for trivial technical lapses on the part of the foremen. When the prized subscribers default the only recourse to recover dues is through arbitration as per section 64 of the Act. The remedy is impracticable and time consuming. Since nominees are not appointed as required in rule 48, several cases are still pending before the Registrar of Chits. This has severely affected the cash flow of chit fund companies rendering it difficult for them to run the business. Unless this aspect is not suitably amended, the progress of chit funds will be adversely affected.

6. The authority for arbitration vests with the Registrar of chits and there is no objection to it. Considering the pressure of work and responsibilities, arbitration matters have become
secondary and they take their own time for disposal. It is therefore submitted that a separate wing be set up in the office of the registrar of chits by appointing nominees as per rule 48 and qualified legal personnel be entrusted with arbitration. Only then can the benefit of arbitration be available to the foremen.

7. Chit funds are prohibited from accepting deposits from anyone.

8. If the rigidity of the Act continue, there may be a tendency for bogus chit fund companies coming on the scene. It is therefore becomes necessary for the government to be watchful, identify such bogus companies by forming special squards and bring them to book expeditiously.

9. If the government takes necessary steps to examine the genuine difficulties with an open mind and bring about suitable modifications in the act, then only will the benefits of chit funds be available to the general public and the government.
7.4. SUGGESTIONS

7.4.1. ACCEPTANCE OF DEPOSITS BY CHIT FUND COMPANIES

Under RBI regulations, chit fund companies are allowed to accept deposits from their shareholders and Directors to the extent of 15% and 25% of the net owned funds respectively. It is submitted that these limits are very low. As in the case of other NBFCs there should be no ceiling on deposits at least from their shareholders. In addition, as hire purchase instalments and lease rentals received in advance are not included in the definition of deposits chit subscribers may be permitted to give deposits to the chit fund companies up to the extent of the future liability towards the chit. This will help subscribers in earning some money on their idle funds and also ensure that their chit contributions are made on time. The quantum of deposits can, of course, be determined on the basis of objective criteria, such as track record, capital adequacy, net owned funds, regulatory compliance, and the like. The amount so accepted as deposit can be advanced as loan to the needy non prized subscriber. The present ceiling prescribed under section 14 in this connection calls for enhancement.
7.4.2. CARRYING ON OTHER BUSINESS BY CHIT FUND COMPANIES.

Section 12 of the Chit Fund Act 1982 prohibits Chit Fund Companies from transacting business other than chit business except with the general or special permission of the State Government. It is submitted that there are certain businesses, such as Money Lending, which are closely linked to the Chit Fund business. Chit Funds should be permitted to take up money lending as additional business. This will help them to employ their surplus funds profitably, certain restrictions can of course be imposed on the amount which can be lent to a single party or to a “Group” and the nature of security to be obtained from the borrowers and the like.

Section 14 of the Chit Fund Act already permits loan to the non prized subscribers on the security of subscriptions paid by them. This limits also needs to be enhanced. Loans given to chit subscribers are self liquidating and are normally refunded as and when the chit is prized. The period of loan to chit subscribers normally does not exceed 5 to 6 months.

7.4.3. SECURITY TO BE GIVEN BY FOREMAN

Section 20 of the Chit Fund Act 1982 provides for deposit, in an approved bank, an amount equivalent to the chit value, in the name of the Registrar. As requirement of maintenance of liquid assets, requirement of maintaining Reserve Funds and
other Investor protection measures have already been incorporated in the Act and the public money can not be misused or misappropriated, the said security may be reduced to 50% of the chit amount. This will increase the liquidity of funds in the hands of the foreman and he may not be required to borrow any funds for the proper conduct of the chit business. It is relevant to note that Bhabadosh Dutta Study Group, James Raj Committee, Shah Committee and the like have appreciated the role of Chit Funds in our economy. Streamlining of their activities as suggested by them has already been taken care of by their sections in the Chit Fund Act 1982.

7.4.4. Ceiling on discount-Section 6(3)

The proposed ceiling limit of 30% of the chit value as discount to be foregone by the subscribers may be enhanced at least upto 40% in relation to the duration of the chit. The government should take cognisance of this aspect and amend the Chit Fund Act to introduce the relaxation of the ceiling limit of 30 % in keeping with all the economic liberalisation of the present day. Freedom and Discretion to the Chit Business must be allowed.
7.4.5. **Aggregate amount of Chit - Section 13**

Section 13 provides for Rs.25000 and Rs.1,00,000 to Individual and Partnership Firms and 10 times of the net owned funds for Companies. The said minimum limit may be increased to at least 15 times the net owned funds uniformly for Companies, Partnership Firms and Individuals. There is no restrictions on the volume of business in other trades conducted by the non-corporate bodies or companies.

7.4.6. **Balance Sheet**

Though the Company Act provides 9 months time for the submission of the Balance Sheet the Chit Fund Act 1982 calls for the submission of the Balance Sheet in three months time. The section should be suitably amended.

7.4.7. **Insurance Coverage as Investor protection**

While Insurance provides scope for both “Credit guarantee” and “Deposit insurance”, the former comes to the aid of the chit foreman in case of prized chits and the later makes life easier for the unprized subscriber whose money stands deposited with the chit Company. In many developed countries insurance Companies are providing such schemes. It is better if we consider ways and means to give insurance coverage to the scheme with a view to protect subscribers' money in the hands of chit promoters.
7.4.8. **Code of Discipline for the Trade**

There is an urgent need to set up an institute on the lines of other professional bodies (like the institute of Charted Accountants) which provides:

i) Uniform guidelines for operations

ii) Provides for a code of discipline

iii) Supports and develops management talent in the field.

iv) motivates research

7.4.9. **Integration to Banking and the Financial Markets.**

Chit fund schemes are unique and at best compliment the working of the banking and formal sectors of the economy. Banks have been statutorily prohibited from transacting chit business.

It has been observed that people who got financed by banks are the same people who also subscribe to chit funds. It is important to co-ordinate and identify the pool of lenders and borrowers of finance and provide reasonable checks. A need for a dialogue between the lending institution and the banks is definitely helpful.
7.4.10. Efficient Judiciary

With the introduction of the central legislation in various states, the role of first trial now lies with the Registrar of chit funds. In places where the local laws are applicable, redressal lies with civil courts. Whatever be the forum, it is the need of the hour that an efficient system of disposal of disputes is formulated. This will go a long way in controlling the recovery position of chit companies.

7.4.11. Factoring

After the Kalyansunderam Committee report the concept has been floated that factoring must come to India as in other developed countries. The concept is of Professional collection agencies with statutory powers, pool of legal expertise, efficient and trained collection personnel and a define culture and system for the purpose, taking up default cases with recourse to and paying-off the principle creditor at a discount, at times zero.

7.4.12. Present System makes Accountability to Two Masters.

At present every corporate chit promoter is under an obligation to follow the guidelines framed and enforced by the State Government and at the same time fulfill it's obligations towards rules framed by the Reserve Bank of India. There are instances where the statues of the two regulating agencies are conflicting, Accountability must be suitably reconstructed.
7.4.13. Shift from Excessive Legislation to Strict Enforcement

While there are chit companies that follow the statute to the last word, there are others which get registered in states where the Office of the Registrar is not so effective. It is important to provide a legal playing field for all the players.

7.4.14. Penal Provisions—Section 76 and 77

Section 76 rightly prescribes punishment with imprisonment for a term of two years, or conviction and a fine of Rs.5000/- or both. Prevention of mis-utilisation and mis-appropriation of the subscribers' money in the hands of the Foreman is the essence of the entire act. There is no definition or elaboration of the terms utilisation or appropriation. At the same time section 14,22,24,30,31 and the like, which deal with technical aspects like intimating the subscriber about the transfer of prize money to statutory deposit account, recording the proceedings in the minutes if any, also provide for imprisonment provisions. As such rigorous sections can only scare the foreman thereby persuading him to go for unregistered chits. Unintentional lapse of technical nature which can happen during the course of business should not call for such stringent punishment. These sections should be modified accordingly.
7.4.15. Suitably modifying the central legislation on Chit Fund to adopt a growth orientation.

The validity of the legislation can also be restricted to 10 years or so that there is compulsion on the part of the legislature to have a relook into the various provisions. This will also eliminate the possibility of having obsolete laws. Such provisions are available in the sunset laws which are prevalent in UK and other countries.

7.4.16. Uniform Act

A number of companies are having their Registered office at Haryana or Jammu & Kashmir and in other states where there is no Chit Fund Act and having large operations in places like NCT of Delhi, States of Kerala, Maharashtra and the like places. with a view either to evade the act or to avoid the over-regulation prevailing in the respective state. It is high time a uniform amended act was introduced in all states simultaneously for better results.

7.4.17. Requirement of time for the compliance of the RBI Act 1997

As a result of the RBI Amendment Act 1997 a number of partnership firms and NBFCs are now winding up as they are unable to comply with the provisions of the Act in the given time. Therefore there is an urgency with which the regulations are being formed and implemented. A number of partnership firms and
financial companies would not have been affected so severely had RBI been more cautious in taking the operators also into their confidence, taken more initiative in increasing the public awareness and was not in such a hurry in the implementation of the Act. Though the purpose of the legislation is to prevent failure of the institutions, many partnership firms and other NBFCs have now crumbled under the weight of the legislation. Though Chit Fund industry is not directly affected by the recent regulations, keeping the investor's interest in mind, it is suggested that the three year's time prescribed in the RBI Act for compliance deserves to be extended at least for those NBFCs and firms who are showing sufficient progress in complying with the Act.

7.4.18. FORMATION OF ADVISORY COMMITTEE FOR FUTURE CONTROL

As the role of RBI is more of a Referee, and the implementation of the regulation is mostly with the State Governments, Awareness Programmes involving general public, promoters and government authorities under the guidance of the regulation review authority will be very useful. As there are sufficient proof to state that most of the legislations are not user friendly, thereby compelling many people to go under-ground, formation of an Advisory Committee consisting of RBI representatives, state authorities, member of Legislative Assembly, other important persons from society and the general
public will come a long way in the effective implementation of various legislations.

7.4.19. **REQUIREMENT OF EFFICIENCY INDEX.**

As Honesty index and the like is available for the purpose of collection of tax in some of the developed countries, a method can be evolved to make some efficiency index for all financial institutions and individuals in our country as well. This can be based on various factors having different weightage.

As there is no co-ordination among the various government departments like Income Tax, Sales Tax or other authorities executing various Acts, basic availability of one common efficiency index will be highly useful for the day to day functioning of the departments. This will be a Millennium gift to the Indian public.

7.4.20. **REQUIREMENT OF A COMMON REGISTRAR**

The activities of all the non banking financial institutions can be monitored by one common Registrar who can maintain the efficiency index based on one common index or permanent account number.

Easy availability of the computerised information to the public, based on a few points, and not the entire balance sheet, and some awareness programme to the extent that they should
deal only with companies which are in the approved list and not in the black list and the like, will be enough to maintain effective control. If any individual chooses to deal with black listed company just for the sake of better returns, he will do so at his own risk. Risk taking behaviour is inherent in human nature and undue concern on the part of Reserve Bank of India to protect the public who knowingly land themselves in the hands of Gamblers if any is unwarranted. Over regulation can only result in increasing corruption and is against the on-going liberlisation programme.

### 7.4.21. Commission

Section 21(1) (b) entitles the chit company to receive only 5% of the chit value by way of commission to meet the expenses of running the chit. This limit was fixed nearly 40 years ago and had not been revised since then, though the overheads on each and every item of expenditure have gone up by 4 or even 5 times its level in the sixties. An upward revision of the percentage of commission is not only fair and reasonable, but also quite justified by the hard realities of the present inflationary trend.

A chit company incurs an expenditure of nearly 4.5 - 5% of the auction turnover in running the chit. This is in addition to the commission paid to agents and development team which
would work out to 1.4% - 1.6% of auction turnover. Therefore, freezing of the foreman's commission of 5% of the chit amount is unjustified due to the increasing costs of operating chits.

7.4.22. BAD DEBTS

The total income allowed under the Chit Fund Act 1982, would work out to be not more than 7% even after considering the foreman's dividend, admission fees, penal interest, income from security deposit and the like, which is sufficient only to cover the expenses of the chit leaving a small margin to meet bad debts. A cushion of 1.5% is necessary to bear the irrecoverables from the prized subscribers. In the case of chit, the transaction is not complete until the payment to the last subscriber is made as per the Chit Fund Act. Therefore, the completed contract method is the correct method wherein the income by way of foreman's commission is recognised only at the time of termination of the chit.

It is therefore, appropriate that the chit company follows an accounting policy under which the arrears on termination of the chit are charged as bad debts while recognising the whole of the foreman's commission as revenue at that point of time.
7.4.23. RESTRICTION ON GETTING REFINANCE OR ACCOMMODATION.

One major source of income for chit funds is the commission that they get from subscribers during the chit period. Chit fund companies do not get any refinance or temporary accommodation from the banks even though they furnish security deposit with the Registrar as per the Chit Funds Act except in certain exceptional cases.

Such re-financing if provided will ensure that the chit companies will become more liquid, they will be effectively monitored by the re-financing institution, which will function like a more effective watch dog and a financial auditor. Such refinance can lead to a significant expansion in the business of chit companies, which is necessary for increasing the level of competition among chit companies.

7.4.24. DE-REGULATE THE CHIT DURATION LIMIT

A long duration chit with no limit on bids is generally preferred by businessmen, particularly under conditions of inflation, rising prices and competition. A longer period also means a relatively large volume of chit amount, by large number of subscribers, and lower subscription denominations. Hence long duration chits help in better capital formation.

The short term chit will face significant competition from hire purchase and lease instruments. Hence further growth and sustainance of the chit industry is possible if the industry re-engineers itself with long-term, large-sized chit portfolios.
7.4.25. **Introduction of Rating of the Chit Companies by Independent, Professional Agencies.**

Availability of independent and impartial ratings will dramatically boost subscriber’s confidence, encourage savings, enlarge the scope of speedy access to funds, lubricate the wheels of the economy in new directions and generally make this people’s institution a force to reckon with.

7.4.26. **Inflow of Director’s Money**

Chit dealing companies are prohibited to take public deposit more than 331/3 % of net owned funds including Director’s part.

When the liabilities are limited, Director’s personal funds invested in the company add strength to the company, a fact which cannot be denied, so Director’s deposit should be allowed without any limit. Restrictions in Payment of interest rate following on Banks advance rate may be fixed if government thinks people may take undue advantage.

7.4.27. **Advances to Non Prized People**

Urgent need of funds to the investors should be taken care of people plan their budget and invest their possibilities. When something untoward happens, they may use their credit for their help. So loans to them is a necessity.
7.4.28. LIMITATION FOR FIRMS TO CONDUCT CHITS

Firms should be allowed to conduct chits, to ten times to their capital.

When Rupees one lakh limit was fixed, the basic reports were conducted in 1960's. Now the maximum income out of this theory, will not be sufficient even for regular administrative expenses that is, salary, stationary, rent, phone charges, postage and the like. People are continuing with expectations that the government will revise soon this limit atleast in between 5 and 10 times of the capital.

7.4.29. SECURITY DEPOSIT

Few states like Andhrapradesh, New Delhi Union fixed 50% of chit value as security deposit. As this is working well it should be extended throughout the country. Administrative and working expenditure swelled very well when we compare to the time of Act. Still this sector is increasing collection on the other hand takes undue time. Hence the need of working funds rises.

7.4.30. ARBITRATION-PROCESS

Recovery and collections are the main aspects of the chits for smooth running.

Arbitration helps a lot and the chit Registrars who are the Arbitrators should be given training to act as a modulator. To
avoid unusual and undue delay, procedures of the court and lawyers with profession compelling them in usual court procedures.

7.4.31. CHIT FUNDS IN THE INTERNATIONAL LEVEL

In the absence of details of existing systems in different countries, it is difficult to offer a model or models suitable under different economic conditions. Each country with sizeable transaction through the “Rosca” [Rotating savings and credit Association] may compare the working of its Rosca with the Roscas of other countries to improve its system.

In certain countries, following a particular religious order, there are taboos on the payment and receipt of interest. Such countries and such religions may conveniently adopt chit funds as a financial technology, because in them there is no payment and receipt of interest; there is only sharing of gains or losses.

7.4.32. STRENGTHENING THE CALIBRE AND COMPETENCE OF THE PERSONNEL MANAGING THE FUNDS.

In the case of many chit fund companies which had collapsed causing widespread distress, it was not so much the dishonesty of the promoters or their intention to defraud the
subscribers that was to blame as the deficiency in managerial competence affecting the quality of supervision and control, compliance with norms of propriety and prudence, vigilance against any laxity in the observance of procedures meant to safeguard the interests of the subscribers, and perseverance and vigour in the functioning of the collecting machinery. The chit fund companies can do well to pay attention to the organisational infrastructure of the companies and come up with a model for adoption in respect of qualifications, disciplinary procedure, compensation packages and composite oversight bodies for each company comprising representatives of the management and the subscribers meeting at short intervals to take stock and nip lapses in the bud.

7.4.33. **Increasing the attractiveness of incentives in the Chit Funds Act:**

Of prime importance here are raising the commission and the ceiling on the bid amount, establishing some correlation with the turnover and the size and duration of the chit.

7.4.34. **Setting up a new regulatory body for Chit Funds**

At present, the Registrar of Companies, the Registrar of Chit Funds, the Reserve Bank of India and the Government at the Centre and the States all have a say under some provision or another in the working of chit fund companies. The Reserve
Bank of India is already over-burdened with the multifavours responsibilities relating to the country's macro-economic management and complexities of which are mind-boggling. Likewise, the State and Central Governments and their functionaries too may find chit funds to worth their interest. It is high time, therefore, thought was given to the setting up of a National Chit Fund Regulatory Authority to serve as an enforcer of standards, as a pathfinder for new avenues, as a referee, as a problem solver and as a reviewer and evaluator in order to help chit fund companies realise their maximum potential as a power house of the nation's progress.
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