CHAPTER SEVEN
FINDINGS AND SUGGESTIONS

Chit Funds being a category of Non-Banking Companies, contribute to the value of financial markets in India. The present study examines motivational factors for preferring Chits and also particular types of Chit institutions. This study entitled "A Study of Chit Finance in Kerala with Special Emphasis on KSFE Ltd." takes stock of the working of Chit Funds in general and KSFE in particular, makes a close examination of the regulatory framework of the Chit Funds in the State, reviews the performance of KSFE and attempts a comparative assessment of various Chit Funds. This concluding chapter attempts to present the important findings and suggestions of the study.

7.1 TREND AND PATTERN OF GROWTH OF CHIT FUNDS

There are evidences to show that a well-established Chit Fund system existed in the erstwhile State of Travancore-Cochin before the formation of the Kerala State. Our analysis on the trend and pattern of growth of Chit Funds shows fluctuating trends in the number and volume of Chits registered in Kerala during the period 1960-2000. The decade (1960-70) witnessed the highest growth rate (21.17%) in annual turnover. The falling growth rates in the succeeding decades have been mainly due to the rigidity of the Kerala Chitties Act, 1975. It has resulted in an exodus of foremen to other states for starting Chits. This decline is also due to the introduction of 'Chit-like' schemes known as Monthly Deposit Scheme (MDS) and Mutual Benefit Scheme (MBS) by the Co-operatives. At the same time, Trend Analysis of the annual turnover of Chit for the decade 1990-2000 shows a distinctly
increasing trend in comparison to the early decades. This has been largely due to the strong presence of KSFE in the realm Chit Finance during the nineties.

Institution-wise, though Co-operatives have the largest number of registered Chits (44.2%), KSFE has a clear edge and dominance in the Chit Funds sector with 77 per cent share in the total Chit business. Region-wise, Southern Kerala followed by Central Kerala dominates in the number of Chits registered as well as in the volume of Chit capital. KSFE is the most dominant Chit institution in all the three Regions in Kerala. District-wise analysis of the number of Chits registered and volume of Chit capital shows that Trivandrum ranks first followed by Quilon, Kottayam and Ernakulam.

Though Chit subscription as percentage of domestic deposits of banks in the State remained more or less stable between 5 to 7 per cent, the average annual growth rate of Chit turnover (16.64 %) in comparison with the average annual growth rate of domestic deposits of banks (16.10 %) seems impressive for the period from 1991 to 2000. The total number of working Chits in the officially registered sector at the end of the year 2000-01 was 20,445 with an approximate annual turnover of Rs.1,74,276 Lakhs. If we include the volume of Chit business with bases outside Kerala, MDS/MBS of Co-operatives and the informal sector, the actual volume of Chit business in Kerala would be far higher.

1.2 MOTIVATIONAL FACTORS FOR JOINING CHITS

Our survey among Chit subscribers revealed that the important reasons for preferring Chits, in its order, are providing future savings in advance, easy and convenient way to save, facility of dual option for saving and borrowing and the monthly dividend obtained through the sharing of discount. Majority of the subscribers (60.2 per cent) joined Chits for both savings and borrowings. Saving through Chits has been preferred, to buy or build a house followed by investment in industry and trade, to meet marriage expenses and saving for old age. Borrowing through Chits has been preferred
for business or industry purpose, to pay-off old debts, to meet marriage expenses and to buy or build a house.

Chit subscribers' main avenues of savings follow the order of Chit, Life Insurance, Provident Fund, Post Office schemes and gold. The fact that the sample subscribers divert major portion of their household savings through the Chit schemes of different institutions shows the wide popularity and high level of satisfaction. It was also found that many subscribers have simultaneous Chit operations in different types of Chit institutions. This clearly indicates the trend among subscribers to join the Chit scheme regardless of the type of Chit institutions. It also reveals the fact that each type of Chit Fund has its own unique methods of attracting subscribers to their schemes. 46 per cent of the subscribers had more than 10 years of association with Chit Funds. The finding that Chit subscribers continue their association with Chit Funds even after the termination of a particular Chit reflects their loyalty to the avenue of Chit Funds.

Majority of the subscribers are aware of the working of Chit Funds in general and KSFE in particular, though only a minority is aware of the legal aspects of the Chit business and the Chitties Act. 'Chit-like' schemes, though named as Monthly Deposit Scheme (MDS) or Mutual Benefit Scheme (MBS) of Co-operatives seem to be equally popular as the KSFE Chits among the people.

7.3 COST AND RETURN ON CHITS

Our examination of the cost and returns on Chits has revealed that the economics of Chits lie in viewing them as savings-cum-borrowing instruments. The financial return and cost of Chits depend on the prevailing rate of interest, instalment at which prize money is obtained, the method of discount followed, the 'sala' size and the duration of the Chit. Subject to these, it was found that, as a pure savings avenue, the rate of return on Chits is not attractive for most of the subscribers when we consider the opportunity cost of the subscription money. And if we look at Chits as a pure borrowing
venue, it is cheaper as compared to bank loans. However, if we look at the Chit subscribers as savers-cum-borrowers, as indeed they should be, it makes sense to join Chits. The actual return or gain/loss they make from Chits will depend, as mentioned earlier, on the prevailing interest rates, how early they get the prize money, the method of discount followed etc.

There is also another dimension to this question, i.e., for many subscribers Chitty is a forced saving. For such persons these funds would not have been saved otherwise and hence there is practically no opportunity cost involved. In such cases, the gain on the Chits will be all the more higher and can be estimated as the sum of the compound interest that could be earned on prize amount and the difference between the loss on bidding and the total of discount accrued to the subscriber.

7.4 REASONS FOR PREFERING DIFFERENT CHIT FUNDS.

We have tried to analyse this question by studying the critical success factors of each of the different types of Chit Institutions.

The important success factors of KSFE Chits, in order of priority, have been the safety and security aspect, big sala Chits, transparency and openness in auction. The critical success factors of Co-operative Chits are their better service including prompt payment and easy way of remittance. The reasons for preferring Private Chits registered in Kerala are their prompt and convenient payment of prize money and better service. The distinct merits of Private Chit Funds based outside Kerala are better services, personal relations with the subscribers and the flexible discount system. The main advantages of Informal Chit Funds are the personal contact with the subscribers, system of flexible discount and easy remittance facilities.

Our Chit Funds Rating Analysis based on the preferences of the subscribers on different aspects shows a trend distinctly in favour of KSFE followed by Co-operatives indicating the preference of the subscribers for safety and security. It also points to the existence of tough competition in the
Chit Fund arena where each type of Chit Fund has a niche market and specialities requiring suitable responses from the major players. The critical success factors for various Chit institutions point to the immense scope for the future growth of KSFE, provided it improves the customer services, and quality of services.

7.5 PREFERENCE IN OBTAINING THE PRIZE MONEY AND ITS UTILISATION.

The majority of the subscribers (66.5 per cent) prefer to get the prize money in the first few instalments. The logic behind this is that those subscribers who obtain the prize amount at earlier instalments are likely to gain more due to the twin advantages of depositing or investing it in more attractive avenues and also an opportunity to meet emergencies.

Majority of the subscribers used the prize amount for productive purposes. But further analysis showed that, the utilisation of prize money for non-productive purposes was more in the case of low-income group and salaried classes. The finding that majority of the subscribers utilise the prize amount for productive purposes leads to the conclusion that the growth of the Chit Fund Industry can help the pace of capital accumulation and hence economic development.

7.6 PROBLEMS OF CHIT SUBSCRIBERS

Problems of chit subscribers were found to differ from institution to institution. The major problems faced by the subscribers of KSFE in its order of priority were stringent security conditions, procedural delay and long queue for the remittance of cash. Though majority found the New Chitty Loan scheme useful, the high rate of interest makes it burdensome. The major problems in the Co-operative Chits in its order of priority were small capital limit, security problem and that the schemes were open to the members only. The safety aspect was the most important problem of Private Chits followed by instances of exploitation and small Chit sala. The same is applicable to Private Chits with outside registration and with Informal Chit Funds. Of
the subscribers subjected to some form of cheating, the majority were customers of the informal sector.

7.7 GENERAL PROBLEMS IN THE FIELD OF CHIT FINANCE

The lapses in the Kerala Chitties Act such as fixed ceiling on discount, security to be kept by the foremen, cumbersome registration formalities and procedural delay are the important problems in Chit Finance Industry. The share of the private foremen and Co-operatives in the total volume of Chit business seems less due to the rigidity in the Act. Our comparative study of the Kerala Chitties Act and The Central Chit Funds Act indicates the superiority of the Central Act. The flight of foremen and the 'Chit like' schemes have resulted in loss of revenue to the State. Many of these problems could have been avoided if, the Central Chit Funds Act, 1982 with its amendments had been implemented in the State.

Difficulty in finding substitutes and the absence of revenue recovery provision are problems especially in the private Chit sector. The entry of certain Chit Funds into other risky fields of business has resulted in the failure of certain Chits. The other prominent problems are loss of reputation to Chit business due to the malpractices of certain foremen, growth of private Chits without State control and registration, the high levels of default and arrears, delayed receipts and non-receipt of subscription, absence of protection by insurance coverage, etc.

An analysis of the above problems of Chit Finance leads to the striking conclusion that The Kerala Chitties Act, 1975 has failed to protect the interests of both the subscriber and foreman. It calls for remedial action by either the strict enforcement of the amended Kerala Chitties Act, 2002 or the implementation of the Central Chit Funds Act.

The 'Five Forces Analysis' on Chit Fund business shows that the level of threat in this industry is not very high and still that the level of performance is rather high.
7.8 PERFORMANCE OF KSFE

The market share of KSFE Chits has shown remarkable growth from 1992-93 (31.5%) to 79.4 per cent as in 2000-01. The total business of KSFE has shown an increase by 13.8 times from Rs. 20,480 Lakhs in 1990-91 to Rs.2,83,105 Lakhs in 2000-01. There has been an increase of 23.7 times in total benefits (including both direct benefits as service charges, guarantee commission, registration and filing fee and indirect benefits as Chitty security deposit, savings bank account, and other deposits with treasury) to the Government of Kerala showing an increase from Rs.1,319 Lakhs in 1990-91 to Rs.31,249 Lakhs in 2000-01. Total Revenue of KSFE has increased 16.6 times during the period 1990-91(1,022 Lakhs) to 2000-01 (20,491 Lakhs).

Chit and allied products contribute 60 per cent of the total revenue of the Company. The growth rate in the volume of Chit turnover shows fluctuation from 1970-80 to 1990-2000. The decade 1970-80 witnessed the highest growth rate. After a small decline in 1980-90, the decade 1990-2000 shows an increasing tendency for the growth rate of Chit turnover. This has been the result of the diversification of schemes of KSFE, particularly Chit schemes in the 1990’s. Total funds mobilised (Chit turnover and total deposit) show an increase of 12.5 times, from Rs.18,159 Lakhs in 1990-91 to Rs.2,26,675 in 2000-01.

Parameters used for measuring the Company’s performance and outreach, like the value of the core business (Chitty), the number of subscribers served, the volume of total advance, deposits mobilised, number of branches and diversification of schemes, register impressive figures for the period 1990-91 to 2000-2001. But the limited number of branches in the rural area stands in the way of fulfilling the social objective during the same period. The total staff strength (direct employment) has increased by 2.5 times from 1,253 in 1990 to 3,179 in 2000. The level of branch productivity and average business per employee have been improving continuously from 1990-91 onwards. Though the Index of staff expenses showed an increasing trend for the period mentioned above, the Index of staff productivity has not been impressive.
At the same time the default rate for all schemes, particularly for New Chitty loan scheme has been very high mainly due to the absence of timely follow up measures. The Revenue Recovery debtors in KSFE have been steadily increasing (11.3 times) from 1992–93 onwards. The BCG Growth-Share Matrix and Default-Revenue Matrix show that Chit and Chit loan schemes are the strategic business units of the Company. All other loan schemes like Trade Loan, Gold Loan, House Finance and Hire Purchase of the Company require redesign and fine-tuning.

An assessment of KSFE as a Government owned Chit Company generates the conclusion that its performance is satisfactory and can attain still higher heights of success. Some of the objectives of KSFE at the time of its incorporation like the social commitment to liberate the rural masses from the clutches of the unscrupulous Chit foreman, controlling the growth of the informal financiers and introduction of insurance business are yet to be realised. The scarcity of rural branches, the dearth of innovative schemes, diversification of existing schemes, lack of public awareness on the special privileges enjoyed by KSFE, insufficient customer care and comparatively poor quality in the delivery of services pose threats to the reputation of the Company. The SWOT Analysis for KSFE has highlighted the need for better performance of the Company.

KSFE operates with a mere Rs. 3 Crore equity capital and with a net worth of Rs.7.5 Crore, which is inadequate. Hierarchical structure of administration causes delay in decision-making and affects the speedy operation.

Insufficient customer service and delay in the payment of prize money tarnishes the image and reputation of the Company, despite its safety aspect. Absence of computerisation creates operational difficulties. The Chit subscribers have clearly revealed the indifferent attitude of certain staff as an important reason for not preferring KSFE Chits. Lack of training facilities for the staff and lack of awareness on changes in the norms and terms of the various schemes cause loss of time and inconvenience to the customers. The
introduction of new schemes has been delayed due to the interference of
strong labour unions.

Our analysis of this section leads to the conclusion that many of the
problems of KSFE stem from the common characteristics of a public sector
undertaking. SWOT analysis of KSFE shows that KSFE as the only public
sector Chit Fund Company in India can attain fast future growth by discarding
its complicated formalities and procedural delay which causes discomfort to
the customers. The competitor analysis for the Chit Fund industry points out
the various actions to be taken by KSFE for modernisation.

7.9 SUGGESTIONS FOR THE BETTER PERFORMANCE OF CHIT
FINANCE.

I. Our analysis had revealed that a number of problems faced by the Chit
Funds business are due to lacunae in the legal framework existing in the
state. Many of this we have seen could be avoided by the enforcement of
the Central Chit Funds Act, 1982. Alternatively, the following
amendments may be brought about in the Kerala Chitties Act to provide
for the following provisions.

A) Section 3(1) of the Kerala Chitties Act on sanction and registration
of Chits should be amended in line with Section 4(1) of the Central
Chit Funds Act on prohibition of Chits not sanctioned or registered
under the Act.

B) Section 3(5) on aggregate Chit amount should be amended as
Section 13(1) of the Central Act with its amendment of 2001 on the
enhancement of the aggregate Chit amount.

C) Section 7(4) on the amount of discount in a Chitty should be
amended in line with Section 6(3) of the amended Central Act on the
enhancement of ceiling on discount to be foregone by a subscriber.

D) Section 15(1) on the security to be given by the foreman should be
amended as Section 20 of the amended Central Act on less
restrictive provision on security to be kept by the foreman.
2. Credit Rating of Chit Companies by independent, professional agencies can boost subscriber confidence and encourage savings through Chits. Credit Rating provides the potential subscriber to differentiate between the various Chit Funds in operation, thereby preventing the mushroom growth of Chit Fund Companies. Credit Rating must be made compulsory for those Chit companies, which accept deposits from the public.

3. Chit companies rated with the highest safety could be permitted to conduct ‘Corporate Chits’ with a ceiling on Chit Sala. The Minimum paid up capital for such Chit companies should be enhanced.

4. There are Chit companies that follow Chit Fund Regulations to the last word. But there are Chits operating in the State with bases outside (eg. Jammu, Faridabad) and a number of other unregistered Chits who do not have to follow any of these regulations leading to various types of malpractices, besides affecting the State revenue. It is also anti-competitive as it fails to provide a level playing field for all Chit Funds. Hence, the Chit regulations must be strictly enforced on all players if they are to be allowed to operate in the State. In this context, the new amendment introduced in the Kerala Chitties Act on 1st April 2002 will be highly useful provided it is strictly enforced on all.

5. The setting up of a State Chit Fund Regulatory Authority will serve as an enforcer of standards, as a problem solver and a reviewer and evaluator for helping Chit Fund companies.

6. Effective system of disposal of disputes through the establishment of a grievance cell or even resorting to Securitisation Act can help in controlling the recovery position of Chit Funds and the resultant loss to the subscribers.

7. The Government should control the growth of unscrupulous fly-by-night Chit companies by introducing suitable legal measures. Implementation of the Central Chit Funds Act or suitable amendment in the Kerala Chitties Act can prevent the growth of such companies.
8. Co-operatives’ Chit scheme may be opened to all rather than only to the members, along with the introduction of the Chitty loan scheme of the type offered by KSFE at reduced interest rate.

9. Insurance schemes could be introduced to protect the interests of subscribers and foremen. Insurance provides scope for both ‘Credit Guarantee’ to the foreman in the case of prized Chits and deposit (subscription) insurance to the non-prized subscribers. As private insurance companies have become a reality, Insurance Coverage Schemes for Chit Fund business could be easily introduced.

10. Provision should be made for the enrolment of NRIs as Chit subscribers.

11. An All Kerala Federation of Chit Funds free of political bias for the common cause of the Chit business is desirable.

12. In view of the need for a level playing field, discrimination between a Government Chit Fund Company and other Chit Funds existing in the State should be reduced and ultimately avoided.

1.0 SUGGESTIONS ON KSFE

1. In the emerging competitive scenario, KSFE should be innovative and introduce attractive newer schemes and packages, modify and redesign existing schemes and diversify wherever suitable opportunities exist.

2. Promotion and diversification of Chit scheme, which is the strategic business and main contributor to the revenue of the Company is to be introduced. BCG Growth Share Matrix and the Default Revenue Matrix had shown that Chitty and its allied New Chitty loan scheme are the strategic business units and the main contributors to the revenue of the Company. So, the appropriate strategies recommended for Chitty is to ‘harvest’ and for New Chitty Loan is to ‘hold’. But the high rate of default in New Chitty Loan requires urgent corrective action. The high default-low revenue share strategic business units like hire purchase, house loan, trade finance loan, New Fixed Deposit Loan and Gold Loan need a closer scrutiny and redesigning to make them viable. Hence the appropriate strategy recommended for is to ‘build’ by making them attractive to the public.
3. The critical success factors analysed for *Chitty* and New *Chitty* Loan in terms of their market share in the industry, share in the volume of business of the Company, profitability and safety aspect calls for appropriate strategies to diversify them. The Competitor Analysis and the SWOT Analysis for KSFE point to the urgent actions to be taken by the Company for modernisation, branch net-working, introduction of innovative schemes, effective and practical security norms, better quality of Customer service and to minimise the default rate.

4. Simplification of security norms and formalities should be implemented without affecting the safety of the Company. This will minimise the inconveniences caused to the customers. Opening-up of enquiry counters at the branch and the supply of detailed printed leaflets or brochures in the Malayalam language regarding the security procedures are essential.

5. Salary certificates offered by the employees of reputed private firms and the guarantee provided by the businessmen with PAN card can be accepted at par with State employees salary certificates. If the security provided by the customer or Chit subscriber is sufficient for future liability, other sureties need not be insisted on.

6. More rural branches are needed for fulfilling the social commitment of the Company. Evening and morning branches or counters, more cash counters in the branches on busy days to avoid long queue, cash collection up to 4’0clock, and separate counters for payments and remittances will provide better service to the customers. Provision of sufficient facilities in the branches for seating, drinking water, revenue stamp, payment of prize money within 30 days etc. will enhance the customer/subscriber satisfaction.

7. Introduction of salary deduction provision to suit the salaried class and the diversification of Chit schemes like Vehicle Chits, Marriage Chits, Education Chits, House Loan Chits, Land Chits, Consumer Durable Chits, Chit Schemes suited for students etc, could be introduced.

8. Door collection and daily collection of Chits from traders and businessmen through agents should be introduced. At the same time
advances to the above group and daily repayment provision through agents could be easily implemented. Long duration and high value Chits must be started. KSFE has every potential and so must think of conducting Corporate Chits. Cash Payment of prize money up to Rs. 1 Lakh must be allowed.

9. *Chitty* loan scheme should be made more subscriber-friendly by reducing the rate of interest. In the light of the social commitment of the Company, Chit loan scheme at concession rates of interest should be considered for low-income subscribers and women and for self-employment programmes.

10. Diversification into new attractive products like insurance schemes or distribution of insurance schemes, acting as agent to the Government, tie-up with premier institutions on House Loan schemes and entry into other non-fund based services should be seriously considered by the Company.

11. Computerisation helps better customer service and can result in business promotion/efficient working of the Company. Proper care and attention could be offered to the customers due to the less burdensome work of the staff because of computerisation. An enquiry section operating with an updated computer can give guidance and quickly clarify the genuine doubts of the customers. Door collection and daily collection of Chits on agency basis could be made possible and easy, by computerisation. Salary deduction of Chit subscription through the *Sugama* scheme and collection of cash upto 4’O clock would become realities with the computerisation of branches. Computerisation will enable KSFE for its easy default processing, facilitate prompt and strict follow up measures and also help inter-branch remittance facility. Computerised Head Office with information on branches, schemes, employees, etc. and inter-linking with branches will facilitate the efficient working of the Company.

12. Human Resource Development programmes for the staff will enhance efficiency and enable speedy and better service. It will also help in maintaining good customer relations. Information on the changing norms
and rules of various schemes and computer literacy programmes can be provided as part of scientific training. Participation in the Training Programme should be made compulsory and must be an essential requirement for promotion. A proper system of recruitment and training will enhance the quality of the personnel. For this purpose, the head-office must very seriously think of starting a Staff Training College. It can offer training programmes to the staff of other Chit institutions as well. This can go a long way in bringing about the badly needed professionalism in the industry.

13. Along with its rural branch expansion programme, KSFE must extend its services and operations to other states in India and plan for starting even overseas branches.

14. KSFE needs to be protected against high politicisation so that the Company can implement the decisions without delay. Incorporation of professional and financial experts into the Board of Directors of KSFE, is also desirable.

15. A Default section should be opened in every branch for timely and strict follow-up. Measures like incentives, concessions, discounts or even persuasion should be adopted to reduce default rate and the quantum of Non Performing Asset.

16. The Company should increase its paid up capital. The government itself can contribute more capital to the Company. A portion of the profit or its reserve should be converted into equity capital. The Company can think of offering certain percentage of the total capital to the public through private placement or even public issue. The shares of the Company should be offered to the employees also.

17. The staff representation in the decision-making bodies should be considered. A member of the staff elected by the employees should be given representation even on the Board of Directors. Quality Circles system could be introduced in the Company.
18. KSFE should arrange public awareness campaigns and customer awareness programmes. Information Bureaus can be opened in important regions and places. Customer meets could be arranged occasionally. Complaint Book or Suggestion Box should be provided at every branch.

19. A Research and Development wing may be opened at the head-office for the evaluation, planning and promotion of business. Every scheme should be evaluated periodically and corrections, if any, introduced immediately.

Conclusion

Chit Funds contribute to the value of financial markets in India particularly in Kerala. Chit Finance with its unique features is of great significance especially as a saving cum borrowing avenue. Though Chit as pure saving and borrowing avenues seem less restrictive, people from all walks of life prefer the scheme due to its facility of getting future savings in advance, convenient and contractual way to save and the facility of dual option for saving and borrowing. Chit as an indigenous financial instrument is complementary to modern financial techniques of savings and borrowings. The element of mutual help and co-operation inherent in Chits makes it distinct from other similar savings schemes. It is no wonder, therefore that Chit Funds have survived the test of time and have become an important part of the culture and traditions of the people of Kerala and South India.

Different types of Chits operating in the state have their own success factors and failure factors. The instances of exploitation, cheating and malpractices in the Chit Fund industry particularly in the informal Chit sector warrant prudential regulation and strict enforcement of the Chit Act in the State. This highlights the need for the growth and better performance of registered Chit Funds as a check to the informal sector.

Though KSFE is the dominant foreman in the Chit business in Kerala, its weaknesses result in the non-attainment of certain objectives. Driven by the growing trend of privatisation, KSFE needs to be innovative and competitive. It is also necessary that KSFE continue its leadership role by
being more effective in being the harbinger of more efficiency, professionalism and good governance in the Chit Fund Industry. Though the performance of the Chit Fund industry is satisfactory, several difficulties and problems prevent its healthy growth. Limitations in the regulatory measures have resulted in the outflow of Chit foremen from the state and also failed to control the growth of informal Chit Funds. The implementation of the Central Act or suitable amendment of the Kerala Chitties Act and its strict enforcement is needed for the healthy growth of the Chit business in the State. The growth and development of Chit business by protecting the interests of both the subscribers and the foremen will therefore be most beneficial for any growing economy.