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Chit Fund

Why in Newspapers?

Recently, the GST rates on Chit Funds have been increased to 18% from the earlier 12%. This can increase both the cost and benefit of borrowing from 'chit funds'.

Quick Issue?

- A 'chit fund' is a 'close-ended group lending' scheme. In this a piece of paper (chit) is used to 'write the bid amount', hence it is called 'chit fund'.

Historical Background?

- It does not come under the jurisdiction of RBI, but is a legal entity registered and regulated with the State Governments under the 'Chit Funds Act' of 1982.
- Each member contributes his share (fixed amount) to the pool and the member who bids higher or who needs it is given a lump sum amount, although they have to pay extra for this.
- Chit funds are the Indian version of cyclical savings and credit associations found around the world.
- The concept of chit fund was born a few decades back in India itself. At present, its popularity has increased rapidly all over the world. Farmer families from a small village in the Indian state of Kerala together gave birth to a concept called Chit Fund.
- In chit fund, a group of farmers used to hand over a certain quantity of their grain to a selected trustee, after that organization keeps a part of it, the remaining grain is given to the members through an auction.
- In the local language, this system is known as Malabar Kuri, which has existed since the ancient Dravidian period. This system is very similar to the Chinese lottery. The history of chit funds in Kerala dates back to the time of Raja Rama Varma.

Other Key Facts?

Chit Fund Amendment Bill, 2019

- The Chit Fund Amendment Bill, 2019 was brought at a time when scams of a large number of chit fund companies were exposed, the government has made legal provisions to bring more transparency in the chit fund scheme and protect the interests of the people investing in it.
- Prior to this, the Chit Fund Act-1982 was applicable in our country, according to which a person should enter into an agreement with another person or group, in their agreement, the amount, time and time-to-time instalment should be deposited by auction of money on completion of the time. The profit that is made should be shared equally among all the members.
- According to these laws, relatives or friends can run a chit fund group together. But people started running it as a company in the public investment field. Thousands of such companies opened especially in Andhra Pradesh, Tamil Nadu, Kerala, West Bengal, Odisha, Assam and Tripura.



- At present, there are about 15,000 chit fund groups or companies operating in India. Kerala state also has its own government fund company, which is known as Kerala State Financial Enterprise Company.
- In India, investors invest their money mainly for marriage, property and purchase, vehicle purchase, asset purchase, consumer short lived goods etc.
- Ponzi schemes are a form of fraud to lure investors; in these schemes the old investors are given profits by taking money from the new investors.
- These schemes make victims believe that their profit is coming from the sale of products or other means, while they are completely unaware that the source of their profit is new investors.
- These schemes are named after Charles Ponzi, who was notorious for using this trick in the 1920s.

Likely Question Asked In Preliminary Exam

Que. Which of the following regulates Non-Banking Financial Companies (NBFCs)?

- (a) Central Government
- (b) Reserve Bank of India
- (c) Small Industries Development Bank of India
- (d) Industrial Finance Corporation of India

Answer: (b) Reserve Bank of India



