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An Evaluative Study on Chit Fund: A Boon or Bane for The Society

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Abstract:

As we all know that with the increasing rate of inflation and emerging trends in business needs of microfinance has emerged drastically. With the emergence of the needs of micro finance many CHIT FUND has also emerged as a tool for micro financing institutions. As originated in India chit fund helps in fulfilling the urgent requirement of cash without any collateral security. In a chit fund scheme a group of like-minded people collectively contribute a particular sum of money for a particular period of time as agreed upon earlier. Every individual of the group contributes to the common pool at regular intervals. Chit fund industry comprises of both registered as well as unregistered. According to a famous English saying every coin has two sides, through this descriptive and analytical study we want to evaluate whether chit funds are a boon or bane for the society.

Keywords: Chit funds, Society, Boon, Bane, Finance, Awareness, Financial instrument.

INTRODUCTION

As traced its emergence from Southern parts of India, the term chit fund has been derived from the word “Chitty” meaning a chit or a receipt for money received. Chit fund is also known as “Kuree” or “Panam payatu” in Cochin and Malabar region. Chit fund concept is the blend of both credit as well as savings scheme. The mechanism of chit fund works upon rotating savings and credit association (ROSCA) which means a group of individuals come together with an agreement (it can be formal or informal) to subscribe for a certain sum of money (in some parts of rural India the agreement is also made upon certain quantity of grains) for a definite period of time in the form of periodical instalments mutually agreed upon. The pooled or collected amount is then given to the person in need through the process of auction after deducting discount at prescribed regular intervals. Generally, the person who receives the amount by the auction is not eligible to receive the amount again but needs to give rest of his instalments. The person receives the amount is decided through chits that’s why it is named a chit fund.

In India major source of financing of non-banking financial transactions are done through chit funds. The major bifurcation of chit funds is known as registered chit funds and un-registered chit funds. As discussed above it is a tool used by non-banking financial corporations hence, they are either governed by the government or some informal groups. Registered chit funds are the one which are governed by the state governments and the pooled amount of first instalment of which is transferred in bank for the security of funds.

While, unregistered chit funds are the funds which are formed by the informal groups and are not registered any where they are generally run by a group of members who are either friends, or family and many-a -times it can be created among the neighbours. The basis of creation of chit funds are trust and mutual coordination among its members.

As we have understood that the basis of chit funds is based on trust and mutual relationship of there members. Hence, it leads to many of the questions in the mind of the people like are they reliable. Is my money safe if I have invested in these and gives rise to many myths and many a people are not even aware of these types of funds so through this paper, we would like to draw their attention towards both how chit funds are boon and have they can be a bane for society.

LITERATURE REVIEW

According to Mudit Kapoor, Antoinette Schoar, Preethi Rao, Sharon Buteau in their Research article Chit Funds as an Innovative Access to Finance for Low-income Households, have pointed

out towards the benefits as well as loop holes of chit funds and tried to answer the er the myths cropping up on this particular topic.

In the research work of Subbulakshmi S- Comparative performance analysis of chit funds both registered and unregistered in select districts of Tamil Nadu. Through this research work she focused on explaining what are chit funds how do they work and also suggested the measures through which they can be made strong financial instrument.

Ramesh Kumar V in his research work Chit funds organizations growth, challenges and opportunities in Tamil Nadu laid emphasis on the various challenges faced by the chit fund organisation in India which could be converted in opportunities if handled in proper manner. Not only this he also talked about the role of foreman in handling the proper mechanism of chit funds and also the problems faced by him in case any of the member becomes insolvent or doesn't pay the amount

NEED OF THE STUDY

The present study has been taken up with a broad aim of analysing the existence and mechanism of chit funds in India. Many studies were previously taken up to performance of chit funds from only financial point of view. The present study which aimed to explore the essence of chit funds for meeting the urgent needs of the society. Main aim of this study is to evaluate the role of chit funds as a tool of micro finance in helping to meet the needs of society despite of being an unsecured fund.

OBJECTIVE OF THE STUDY

1. To study the concept of chit funds and its working mechanism in India.
2. To know about how it is affecting the society.
3. To know its mechanism in detail.
4. To study its effect in long run.
5. To study about its awareness among the citizens of India.

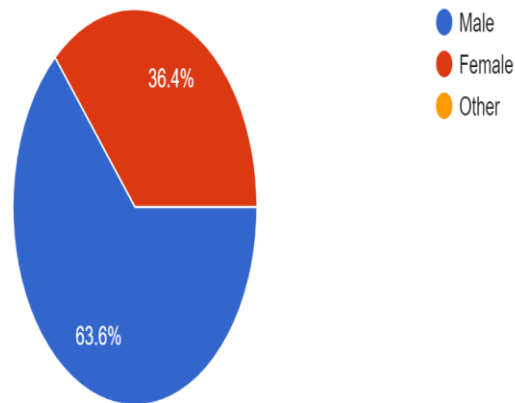
RESEARCH METHODOLOGY

In this research work descriptive as well as exploratory approach is utilised through collecting primary data through a questionnaire comprising of 12 multiple choice questions and 1 descriptive has been prepared which in calculates all the required questions to explore and know the doubts and myths of people regarding the same. Sample size consists of 32

respondents. The demography of respondents was mainly of age group of 21-35 with varies occupations majorly of service class and professionals. The sampling techniques used was non probability sampling and the data was collected with the help of social media.

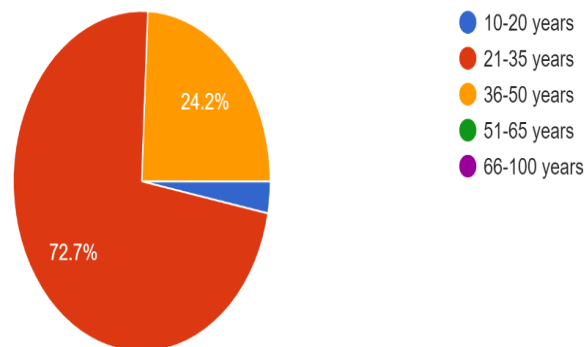
Gender

33 responses



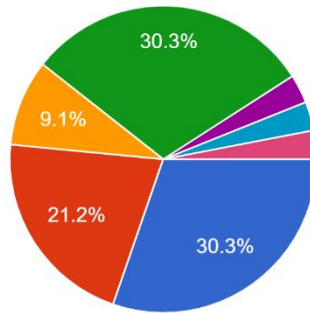
Age Group

33 responses



What is your Occupation

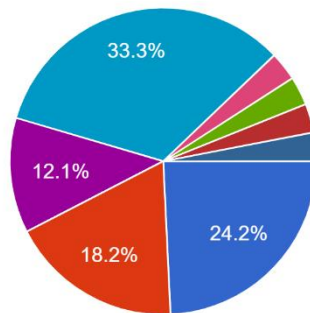
33 responses



- Student
- Service class
- Business Person
- Professional
- House wife
- Pvt job
- Teacher

In your opinion which is the best option to invest money

33 responses



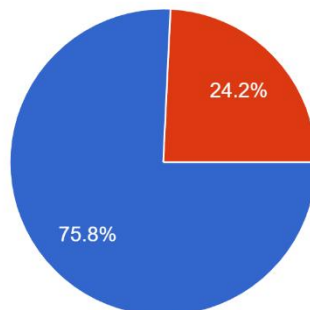
- Stocks
- Bonds
- Collectibles
- Direct Loans
- Financial Derivatives
- Real Estate
- Mutual funds
- Its depends upon individual to individual

▲ 1/2 ▼

DIALOGUE

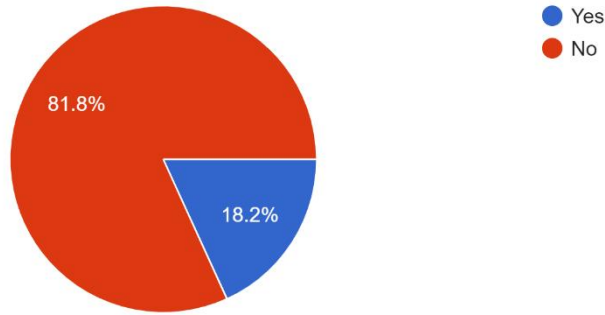
Have you heard about Chit Funds

33 responses

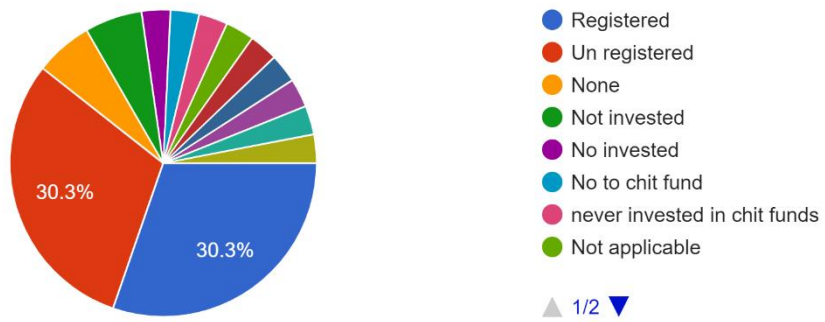


- Yes
- No

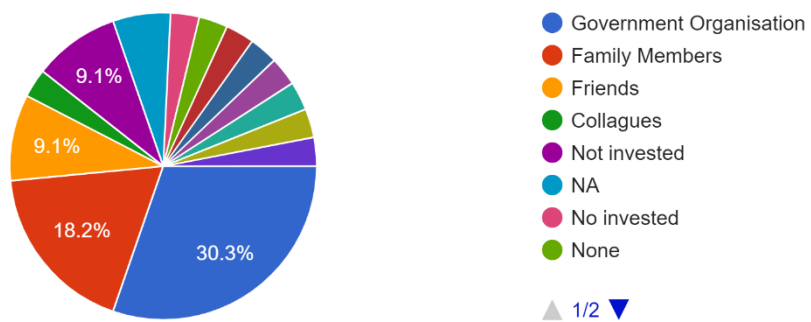
Have you made any investments in Chit Fund
33 responses



The chit fund in which you have invested your money is/was
33 responses



The chit fund in which you have registered is maintained by
33 responses



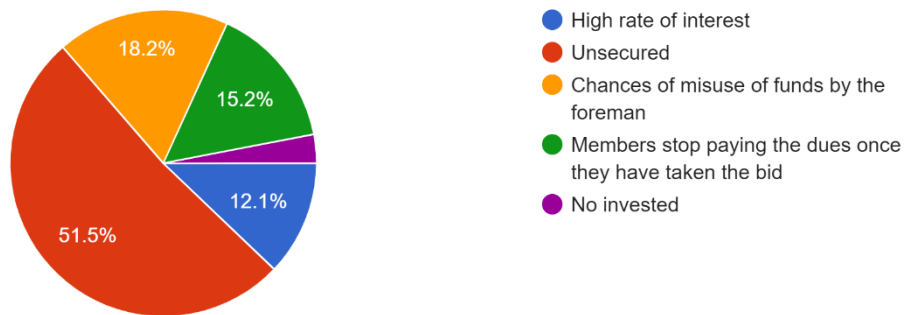
Advantages of Chit Funds over other options of investment you felt the most

33 responses



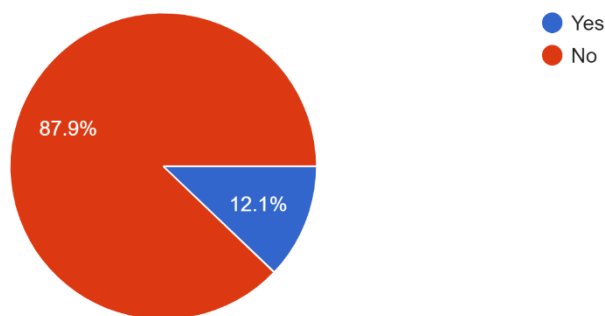
Which is the major reason you will never opt chit fund for your investment

33 responses



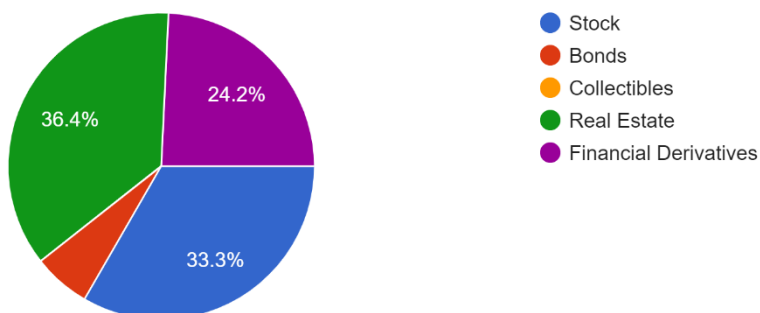
If the amount you want to invest is huge would you prefer investing in chit fund

33 responses



Other than Chit funds which option would you prefer the most

33 responses



DIFFICULTIES FACED IN DATA COLLECTION

1. Searching the respondents who have invested in chit funds was difficult to find.
2. People from middle class, literate section of the society are not interested in chit funds at all. Hence, the data collected from the primary source is not totally unbiased

HOW DOES A CHIT FUND WORKS?

A chit fund model contains a group of people, which are known as subscribers. An organizer, who takes the charge of the funds is a trusted relative or neighbour, which brings the group together and administers the working of the group is known as foreman. For his/her efforts, the organizer is either compensated each month or at withdrawal time. (This fee is generally forbidden in informal sector and the maximum limit of this commission is 5%)

The fund starts at a pre-determined date and continues till the number of months becomes equal to the number of subscribers. Every month each subscriber put his/her instalment in the pool which is also termed as 'POT'. Then, an auction takes place and the persons who are willing to receive the amount offers the bid the person who offers the best bid is given the amount after deducting discount. This process is cyclical in nature and takes place every month until every member of the fund is not benefitted. Every subscriber needs to pay the amount every month including the person who have received the amount.

The system acts both as a borrowing as well as the savings system simultaneously because in this system subscribers can access large sums of money before paying the whole amount. It acts as a savings system, because each subscriber contributes every month and may take a huge amount in the future while receiving their share of the surpluses

TYPES OF CHIT FUNDS

On the basis of chit organizer major bifurcation of chit funds comprises of the following types

1. Funds run by State governments also known as Registered chit funds
2. Private registered chit funds
3. Unregistered chit funds

1. Funds run by State government or Registered funds:

These are considered as the safest type of funds these funds are governed by state governments of the state. For example: KSFE Kerala state financial enterprises.

2. Private registered chit funds

These kinds of Chit Funds are privately owned and their workings are administered by private organization. For example, major business houses in this chit fund industry are Margadarsi Chit Fund and Shriram Chits. These Chit fund companies are registered under government and supervised by SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI) which means supervised under the supervision of the Securities Exchange Board of India (SEBI). SEBI regulates these chit funds and makes sure that they follow the rules set by the SEBI. Investor needs to register themselves with SEBI prior investing in private chit funds. Only after registration, they are eligible to withdraw money from private funds in need without giving any reasons otherwise they are not eligible to do withdraw money without stating the specific reason.

3. Unregistered chit funds

These kinds of Chit funds run by Private owners but are not registered with the government which infers that they are not regulated by SEBI. These are also known as informal groups Participation in these types of funds are totally risky. There is a high probability that you will lose your money.

ADVANTAGES OF CHIT FUNDS

Nonetheless chit funds are risky but despite of these characteristic features they possess some major advantages which are discussed below:

1. Flexible – they are not rigid and allows you to invest your funds whenever you wish to.

2. Low-cost benefit – Unlike banks, they don't charge any fixed deposit interest charge. Instead, they pay you a small amount every month.
3. Financial inclusion – Chit funds give loans to people belonging to low-income groups and ensures women empowerment by providing them funds in need without any collateral.
4. Savings – By investing regularly, you can build up a corpus. And, you do not have to worry about inflation because you will earn interest on your investments.
5. No interest – Chit funds do not charge any interest from their subscribers.
6. No questions asked – Chit Subscribers can avail the amount whenever they need from the pot without specifying the reason.

DISADVANTAGES OF CHIT FUNDS

- Risk averse: Risk are high in unregulated chit funds
- Regulated funds are also not at all trustworthy
- Many a times people invest in these funds without being backed by financial literacy.
- Generally, the person who gets the first bid is the person who receives the lowest amount among all.
- There is a major risk of default

FINDINGS/RESULTS

Through this research paper the researchers investigated the economic importance of chit business in India. The study laid emphasis on the role of chits as a non-banking financial intermediary which aimed for facilitating financial inclusion of the low-income group of the society by mobilizing funds and enabling them to improve their standard of living. The direction and the pattern of chit business not only held its reputation among the general public but also developed a zeal akin and a passion towards the financial services of the banking institutions. It helped in dwelling the impact of several chit rules and the major threats and challenges thereof. An attempt has also been made in this study to elaborate the usage of chit funds and how they can serve as a bridge between different sections of the society

CONCLUSIONS

From the above studies we can conclude that due to its volatile and unsecured nature people are hesitant in investing in these types of funds. Although India is a country which has been through

a paradigm shift from under developed to developing and now after covid -19 when we are moving towards developed nations from developing demands urgent cash requirements which can be easily fulfilled by Chit funds model of micro financing. But, due to its volatile nature and the careless and irresponsible behaviour of the foreman it is making people resilient to invest in it. Due to its feature which says no collateral is required for granting the funds have helped many people when they some emergency arose in their lives. Not, only this it helped many small-scale businesses to grow and many low-income households to increase their standards of living. With the aid of government and intervention of banking sector chit funds model can be converted into big financial intermediary and can help in fighting major problems of economy like poverty, illiteracy, health, and hygiene etcetera. With little bit of government intervention chit funds can be proved as “A BOON FOR THE COUNTRY”

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