

# Standing Committee Report Summary

## The Chit Funds (Amendment) Bill, 2018

- The Standing Committee on Finance (Chair: Dr. M. Veerappa Moily) submitted its report on the Chit Funds (Amendment) Bill, 2018 on August 9, 2018. The Bill seeks to amend the Chit Funds Act, 1982. The 1982 Act regulates chit funds, and prohibits a fund from being created without the prior sanction of the state government. Under a chit fund, people agree to pay a certain amount from time to time into a fund. Periodically, one of the subscribers is chosen, by drawing a chit, to receive the prize amount from the chit fund. Drawings are conducted by the foreman, who manages the fund and receives a commission for the same.
- The Committee endorsed the specific amendments proposed in the Bill, and also suggested further amendments to improve the functioning of chit funds. Key observations and recommendations of the Committee include:
  - **Nomenclature and classification of chit funds:** The Act specifies various names which may be used to refer to a chit fund. These include chit, chit fund, and kuri. The Bill inserts ‘fraternity fund’ to this list. The Committee recommended that the list be expanded to also include Rotating Savings and Credit Association (ROSCA) Institution. Further, the Committee noted that chit funds are currently classified as miscellaneous non-banking finance companies (NBFCs) by the Reserve Bank of India. It recommended that chit funds be classified as NBFC-Chit Funds or NBFC-ROSCA. This will differentiate chit funds from other NBFCs, and help them play a greater role in facilitating financial inclusion.
  - **Presence of subscribers while drawing a chit:** The Act specifies that a chit will be drawn in the presence of at least two subscribers. The Bill allows these subscribers to join via video conferencing. The Committee noted that the mandatory requirement of the presence of two subscribers during the drawing of chits may delay the process, especially when a subscriber is in urgent need of funds. Further, video conferencing and its recording may not be
    - implementable in rural and semi-urban areas. The Committee recommended that: (i) the requirement of presence of two members during the drawing of chits be done away with, and (ii) modern communication modes such as text message or WhatsApp may be incorporated to introduce flexibility during drawing of chits.
  - **Ceiling on aggregate chit amount:** Under the Act, ceilings are prescribed for the aggregate chit amount. The ceiling amount is one lakh rupees when the fund is managed by an individual, and six lakh rupees when managed by a firm. The Committee noted that the prescribed ceilings make running chit funds unviable. It recommended that the ceilings be revised upwards to make operating chit funds more profitable for the foreman.
  - **Exemptions:** Under the Act, a state government may exempt certain chit fund companies from any or all provisions of the Act. This can be done through a notification, after consultation with the Reserve Bank of India. The Committee noted that safeguards in the law are rendered ineffective by these exemptions. It recommended that such discretionary exemptions be done away with.
  - **Insurance coverage for subscribers:** The Committee recommended that a provision be brought in the Bill which provides insurance coverage to chit fund subscribers.
  - **Changes in terminology:** The Committee recommended changes to certain terminology used in relation with chit funds. It suggested that: (i) ‘foreman’ be replaced by ‘chit promoter’, as this will help to put the onus on the promoter, (ii) ‘dividend’, used to denote the share of the subscriber in the discount at each drawing, be replaced by ‘share of discount’ to reduce confusion, and (iii) ‘chit amount’ be replaced by ‘gross chit amount’ and ‘prize amount’ be replaced by ‘net chit amount’ to help distinguish registered chit fund companies from banned prize chit schemes.

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