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IMPACT OF CHIT FUNDS ON SAVING MOBILISATION IN INDIA

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ABSTRACT:

The chit fund institution is indigenous, straightforward, simple, simple to comprehend, and widely accepted by middle-class people in both urban and rural areas. It is a common instrument for borrowing money. The goal is to pool a few small savings under the direction of a foreman who also serves as a trustee and oversees the process of collecting and allocating the pooled amount to members in rotation. Before the advent of the banking system, rural India's chit funds were an ancient form of savings and credit institution. Chit funds cover the majority of the financial requirements of middle-class people in both urban and rural areas. They meet their particular requirements for large family events, festivals, education, housing, farming, business, and medical costs: The majority of people, whether they live in a city or a rural area, use this option for reasonable returns. Chit funds are a vast network of salaried individuals, homemakers, and small business owners who provide comprehensive parallel banking services. The increased awareness of mutual funds and the equity market has not affected the popularity of chit funds. The chit funds served as a link between ancient financial practices and the modern banking system in the Indian financial system. In India, today's chit funds are highly standardized and comparable to the financial sector. Chit funds continue to exist and grow more popularly than banks in many areas of the country despite the massive expansion of bank branches across the nation.

KEYWORDS: *Mutual funds, the stock market, investment options, chit funds, and KSFE are all overseen by the trustee.*

INTRODUCTION

The inventive ways in which poor people save are evidence of the importance they place on saving. These include investing in things like goats, poultry, and other livestock, using informal sources of savings, such as chit funds, or hiding money in safe places Wright, 1998, 1) These efforts emphasize the significance of providing easy-to-access, safe account-based savings options for the poor. Banks and other formal financial institutions do not provide poor people with saving services that are tailored to their needs. In addition, non-bank financial institutions and MFIs are prohibited from offering savings services by regulations. Because of this, Self-Help Groups (SHGs) are one of the most promising ways for the poor to save money. Introduction Today, chit funds in India are highly standardized and have the status of the financial industry. Many rural areas remain without banks despite the country's expansion of bank branches. The expansion of bank branches, particularly in metropolitan and urban areas, is to blame. Because many of these people are illiterate, it was difficult for rural farmers to obtain bank loans because of the formalities involved. The prize amounts distributed by a chit fund are comparable to the amounts advanced by a bank, and the subscriptions made by its members are analogous to bank deposits. Except for recurring deposits, periodicity of a deposit in a bank is optional, but it is required in a chit fund. Chit funds, like Nidhis and co-ops, are based on mutual aid and self-help. In all of these organizations, membership is open to anyone, and members pool their resources for the benefit of all. Chit funds have the appealing advantage of allowing the borrower to effectively decide interest rates through auctions and securing favorable conditions.

OBJECTIVES OF THE STUDY

PRIMARY OBJECTIVE: to investigate how investors view chit funds as an investment option.

SUBSIDIARY OBJECTIVES: to find out how well-versed respondents are in various investment options.

to determine the level of satisfaction with various investment criteria, such as return, safety, and so forth, for chit funds.

OPPORTUNITIES AND CHALLENGES TO SAVE IN SHGS

A 1997 GTZ4 study found that the most important features that poor people look for in a savings plan are: convenience, liquidity, security, and positive returns Each of these is taken into consideration separately. Security: Groups of 10 to 20 women from the same neighborhood are called SHGs. The members of the group should theoretically know each other and be from the same area; Additionally, regular group meetings should be used to make all decisions regarding loans and savings. All transactions are recorded in the member's pass book and group-level records. As a result, members ought to theoretically be aware of how their savings are maintained. SHGs should be very safe for their members because of all this. However, the informal nature of groups and the absence of regulatory protection limit their governance and longevity, particularly when institutions promote and support the SHG exit. The amount of money saved rises as the group ages. The groups' bookkeeping becomes more difficult as a result, and members feel more uneasy about their growing savings. A number of obstacles, such as illiteracy, the lack of books, and poor leadership, add complexity to these issues. According to a recent study5 conducted by APMAS and EDA, only 15% of SHGs have a record of high quality.

Convenience: Typically, savings are mobilized at the SHG meeting, which is held in the village at a time and location agreed upon by both parties. Members can also choose how much money they save. SHGs are convenient for members due to these two aspects. However, in practice, even though members of an SHG do not need to leave the village to save, they do need to spend a lot of time in group meetings, which means that sometimes they are unable to work casually and lose valuable income. A recent study6 found that SHG leaders and members spend an average of 102 hours per year in meetings.

Liquidity: Members of SHGs typically do not receive their savings back until they leave the group, so the money they collect is typically not liquid because it is used for internal lending. This satisfies Shipton's well-known "illiquidity preference," keeping one from impulsively spending money. However, it also means that if a member needs money, she can only get it through a loan, provided she has enough cash. Members are reluctant to save beyond the basic, agreed-upon, obligatory savings required by the SHG due to this and the aforementioned security concerns, even when they have extra cash at home. Some SHGs do maintain a certain in order to mitigate this.

Positive return:

The majority of SHGs are able to offer a return on savings deposits that is greater than that offered by public sector banks due to the group's internal lending. After meeting expenses, retained earnings are typically added to the group corpus. However, due to the fact that members are less able to track retained earnings than they are to monitor savings placed with the group, there is a significant risk that group leaders will misuse retained earnings. Held income would guarantee investment funds don't yield negative genuine returns (comparative with the pace of expansion), however on the off chance that they are abused by pioneers, individuals might wind up just with their reserve funds.

Additionally, any losses incurred by SHGs as a result of loan defaults are recouped from the savings of the group. Members of SHGs are discouraged from saving in such circumstances.

Access to External Loans

SHGs can get loans from banks and MFIs based on the money they save internally. BFL7, for instance, lends up to 20 times the savings of SHGs of "A" grade (high quality). Some banks in Andhra Pradesh are lending SHGs up to ten times their accumulated savings as part of the SHG-bank linkage program. Most of the time, the groups want to get to outside funds that are cheaper than the market. As politicians attempt to gain recognition for their low-interest credit, this makes it possible for the group to be hijacked. The better-off also join SHGs when they can get money at lower interest rates, which causes governance issues because they frequently try to take control of the group.

Other Challenges to Saving in SHGs

Over time, savings balances with SHGs do not significantly rise, according to a number of studies. Even in SHGs where there is an increase in savings, this is typically due to the group's desire to obtain credit from outside sources8, such as banks or government-subsidized programs like SGSY.9 These "savings" are needed to meet the minimum requirements for loans. The aforementioned factors have prevented the members from realizing their enormous savings potential. Ten of the SHGs sampled in a recent CGAP study only offered mandatory savings. According to the report, this may be because members use other savings methods because they don't think SHGs are good for storing excess cash.

Role of Chit Funds

Chit is a useful homegrown product that meets the needs of the needy and the humble for their location- and time-specific credit requirements. Chit is a bank that accepts both savings and loans. It is a one-of-a-kind group of investors and borrowers working together to help each other (Manjeshwar Ananth Pai, 1995). The business community's requirements are extremely sudden and urgent. Since commercial banks are reluctant to provide loans to this segment, primarily due to the administrative burden and cost involved, they can only meet the urgent need through chit funds.

Chit funds offer more access to investment.

According to S. Y. Krishnaswamy, I. C. S., 1974, people hold chit funds close to their hearts due to their accessibility, availability of funds, and favorable returns on savings. Additionally, chit funds are significant sources of financing for SMEs that operate in various other industries. Despite the expansion of banking into the nation's farthest reaches, they continue to attract thousands of investors annually. The increased awareness of mutual funds and the equity market has not affected the popularity of chit funds. Due to the fact that chit funds provide opportunities for small businesses, small traders and businesspeople frequently participate in chit funds. On a daily or weekly basis, it makes it simple to save money and manage finances.

Chit Funds and Banks

Small-scale chit fund businesses started in the villages to meet local needs. The funds raised by chit funds are used for household, agriculture, business, and consumer needs. The banking industry lends only for productive purposes and very little for consumption. Chit funds successfully meet the requirements for consumption. Since ancient times, the majority of banks have emerged from chit and kuri funds that have been in operation in numerous states. In the beginning, kuries or chitties made up a significant portion of the banking industry (S. Radhakrishnan,). Chit fund companies are considered financial businesses and fall under the category of non-banking financial institutions. However, when it comes to mobilizing savings, the deposit in chitties is more significant than the deposit in banks. According to the lending policy of the bank in particular and the general credit policy of the banking system as a whole, banks typically offer credit advances to a select few significant customers in varying amounts throughout various credit seasons. But all subscribers can get loans from chit funds, and a certain amount of money is set aside for later distribution. These loans can be paid off over a reasonable amount of time in small payments.

FINDINGS & SUGGESTIONS

The purpose of the study was to ascertain how people felt about chit funds. The majority of investors, 25 out of 50, learned about KSFE CHITTY through the KSFE AGENTS, indicating a more positive attitude toward chit funds in the occupation category. The KSFE's ability to be funny is one of a kind. The most important reasons to invest in a chit fund are return and safety. Because KSFE focuses on providing services, employees' attitudes and actions have a significant impact on the company. This is the main area to focus on because the majority of respondents work for themselves. Chit Funds are KSFE's main product. Therefore, the following program must be initiated to improve chit business: Centralized chitty registration, online chitty auction, chitty payments at subscribers' doorsteps, weekly chitty distribution to all KSFE branches, and incorporation of core solutions software into the business Because advertising is the most effective method of business promotion, the company intends to place a greater emphasis on advertisements in order to increase its popularity and locate new potential investors.

Some challenges for the industry

The chit fund industry's connection to investment fraud is currently one of the biggest obstacles. Particularly in light of the aftermath of a well-known 2013 scam, the chit fund industry is viewed with considerable suspicion. It is essential not to confuse chit funds with Ponzi schemes. Utilizing the tech-savvy millennial generation is yet another obstacle for players in chit funds. Numerous chit store organizations are controlled by customary players who have not viewed at the new age as a possible client. However, a large number of new businesses and other players are entering the market right now with the intention of converting a younger customer base into one of India's oldest and most dependable credit and savings systems.

In an effort to revitalize the sector, some of the established players are providing an entirely digital onboarding procedure and enhanced customer touchpoints. Companies will be able to conduct business in a more open and transparent manner as a result of digitalization in the chits industry, which will drastically cut acquisition and onboarding costs. The Chit Funds (Amendment) Bill of 2018, which requires video conferencing during auctions, will make the sector's adoption of technology even stronger and easier. Chits funds aim to fill in the gaps left by the banking industry. In addition to the attractive returns, they encourage individuals in community-based settings to save regularly. Chits are a great way to meet the financial needs of people of all classes and advance the national agenda of financial inclusion if they are directed in the right direction and given the right push.

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According to Shamika Ravi, director of research at Brookings India, chit funds are an essential means of saving money. Chit funds enable individuals to save modest sums, despite the fact that there are in principle a number of organizations that target the low-income population. It is financial intermediation at its most fundamental when people save money and access liquidity, so they should be encouraged. Chit funds basically combine the funds of a group of customers, who then borrow from the fund. A "chit" system, as the name implies, determines who can borrow, how much, and at what cost. A small fee is paid to fund managers. In contrast to collective investment schemes, where funds are pooled and invested outside, these funds do not. The pooled funds are only used to make one-time payments to members of the chit fund in this case. Chit funds are one of the earliest forms of banking in India. Many people in India who are not part of India's formal financial system can use them as a way to save money or borrow money. However, they are frequently associated with a variety of con schemes, including the Rose Valley con and the Saradha con. A few technology-based chit funds and recent legislative changes are all aiming to modernize this traditional method of financing. They believe that it should be promoted rather than discouraged because they believe it will continue to be an important means of financial inclusion for the nation.

From 'Chit Funds' To 'Fraternity Funds'

Chit funds have been brought back into the spotlight by two recent pieces of legislation. The Chit Funds (Amendment) Bill of 2019 and the Banning of Unregulated Deposit Schemes Bill of 2019 were approved by both houses of parliament during the recently concluded sessions. The first bill made provisions for the criminal justice system and gave investigators more authority to crack down on unregulated businesses taking deposits from customers. While some structural and cosmetic changes are made through the chit fund amendments. The chit fund aggregate limits have been raised. Funds with fewer than four partners are now able to raise up to Rs 3 lakh, up from Rs 1 lakh in the past. Up from Rs 6 lakh previously, those with more than four partners can now raise up to Rs 18 lakh. The "foreman," who is in charge of managing the fund, can charge a commission of up to 7% of the fund's value, up from 5% in the past. In addition, the amended Act permits registered chit funds to change their names to distinguish themselves from unregulated entities, such as "Fraternity Funds" or "Rotating Savings and Credit Institutions." The two changes to the law were meant to boost the regulated chit fund industry together. "The government has made a distinction between us and ponzi schemes that pose as legitimate chit funds," stated TS Sivaramakrishnan, general secretary of the All India Association for Chit Funds. "Chit funds have been re-recognised as important players in the financial system under the new Act."

Tech Makes Inroads

Technology is playing a crucial role in modernizing the industry alongside a legislative overhaul. A number of fintech companies have collaborated with established chit fund companies and state governments over the past two years. ChitMonks is one of these businesses. Using blockchain technology, the company has collaborated with the Telangana government to develop a real-time platform for monitoring all of the business activities of registered chit funds in the state. According to Pavan Adipuram, founder of ChitMonks, who spoke with BloombergQuint, the platform monitors all of the chit group's activities on behalf of the state regulator and subscribers. "It has helped to address frauds." Additionally, there are digital chit firms like KyePot that utilize licensed chit funds on the back end. All of the activities, including e-auctions, are carried out digitally by the platform, which issues digital chits. As a result, the subscriber has a comprehensive view of how the funds are managed," stated KyePot founder Sidd Gandhi. CredRight, a different company, has teamed up with a few chit funds and offers subscribers a loan based on the value of their chits, using a credit-score model it developed. Neeraj Bansal, co-founder and chief executive officer of CredRight, stated, "This not only provides chit fund subscribers with loans from formal lenders but also provides the chit fund managers with a lot of data on their customers' savings and repayment behavioral patterns."

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CONCLUSIONS

In comparison to banks, money lenders, microfinance, shares and mutual funds, and other financial institutions, 96% of respondents rated chit funds as a good or excellent source of financing. Additionally, it is concluded that chit funds are a superior method of savings for more than 40% of respondents. As a result, chit funds are recommended to meet all subscribers' financial requirements. Chit funds are superior to all other forms of financing. They fund the education of children, the construction of a house, the payment of medical bills, the performance of marriages, the operation and expansion of the business, the purchase of consumer durables, the accumulation of savings for later life, the purposes of agriculture, lending, and the purchase of gold ornaments. The dual nature of saving and investing, liquidity for future savings, and lack of formalities are the primary reasons for choosing chit funds first. Chit funds are preferred by government salaried respondents and private salaried subscribers due to their dual savings and investment capabilities, improved liquidity, and ability to save for the future. It is preferred by self-employed and business respondents due to its dual nature, fewer formalities, and convenience. Agriculture and all other occupations surveyed favored it for its greater liquidity, followed by saving. Therefore, it is possible to draw the conclusion that chit funds are the financial institutions that are most favored by all segments of society for satisfying the diverse range of financial requirements of all occupational individuals. As a result, chit funds are regarded as adaptable financial institutions. According to the study titled "Investors attitude toward chit fund," investors have a favorable attitude toward the investments they make in chit funds. The majority of investors value the returns and consider chit funds to be a safe investment. Age, gender, education, income, and occupation have influenced investors' attitudes toward chit funds in terms of socioeconomic variables. Variables saved by investors have no effect on investors' attitudes. The study will assist users in analyzing the investor's attitude and helped the researcher acquire real-time knowledge.

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