

Chit Fund Operations and Practices Among Households

A.Vini Infanta¹, Dr.K.Prince Paul Antony²

¹ PhD Research Scholar, Department of Commerce, Sri Ramakrishna College of Arts & Science, Coimbatore.

² Professor & Head, Department of B. Com PA, Sri Ramakrishna College of Arts & Science, Coimbatore.

Abstract- People are falling prey to many chit companies and their schemes despite of the number of detected fake companies and schemes. For some victims, such risks are extended to physical threats or risks, loss of their jewelry and homes, depression, and even suicide beyond their loss of personal savings or funds. Such frauds also have a considerable impact on economies and markets by dejecting consumer trust and confidence in legitimate businesses. Such companies are witty and quick to alter their modus operandi to reduce the risks of law enforcement detection and investigation and to respond to consumer and business awareness of their current methods. People need to be more aware and think before investing in such dubious companies.

Keywords- Chit fund, Middle Income households and Investment.

I. INTRODUCTION

Savings form an important part of the economy of any nation. With the savings invested in various options available to the people, the money acts as the driver for growth of the country. In olden days, investing funds was confined to rich and business people. But, now a day it has become a household word and is very popular with people from all walks of life. With the rate of interest offered by banks on deposits being very unattractive, more people prefer investing in the local chit funds.

Chit Funds are an important source of finance for small businesses and low-income households in India, there has been a general exodus of low value chit schemes from the registered Chit Fund market. This is mainly because registered Chit Funds find it less lucrative to serve the poor due to the increased cost of operating such schemes imposed by the regulators. Moreover, Chit Fund industry addresses the savings needs of people, is considered very safe and also offers loans at lower interest rates than moneylenders.

II. SIGNIFICANCE OF THE STUDY

India, a developing nation consists of nearly 63 per cent of low-income rural population. This huge section of the country has little access to formal banking facilities. The

money lenders became the central part of this who started charging inflated rates of interest. This in turn gave rise to shady financial operators coming up with various chit schemes which exploited the investors. Analysts blamed these kinds of fraudulent mass-marketers and their chit schemes on greed rather than exclusion from formal banking system. Chit fund is a financial savings instrument widespread from even before the formal banking system began. Such an arrangement is carried out based on coordination and trust between operators and members.

III. STATEMENT OF PROBLEM

Chit Fund is an attractive investment option which caters to people from all walks of life. It is especially beneficial to the Salaried Class, Professionals, Businessmen and Self Employed. A chit fund is a type of savings scheme practiced in India, besides other forms of savings scheme offered by various public and private sector banks, post offices, insurance corporations etc. Their investment decisions depend on the various attributes. Recent years have seen a high rise in the number of fraudulent chit fund operations. They are making their way into the poor & middle class people by luring them with offers of high interest rates and returns. People are falling prey to such companies and their schemes despite of the number of detected fake companies and schemes. For some victims, such risks are extended to physical threats or risks, loss of their jewelry and homes, depression, and even suicide beyond their loss of personal savings or funds. Such frauds also have a considerable impact on economies and markets by dejecting consumer trust and confidence in legitimate businesses. Such companies are witty and quick to alter their modus operandi to reduce the risks of law enforcement detection and investigation and to respond to consumer and business awareness of their current methods. People need to be more aware and think before investing in such dubious companies. Based on the knowledge gained from this theoretical discussion conducts of this study is considered as rational.

IV. OBJECTIVE OF THE STUDY

- To assess household's level of awareness towards chit fund operations in Coimbatore city.

- To measure the household's chit fund operational practices and purpose stated for chit fund saving.
- To evaluate the household's perceptions and level of satisfaction towards chit funds operations.

V. RESEARCH METHODOLOGY

Research design of the current study provides a clear picture of the study plan, methods of data collection, nature of sampling techniques applied and data analysis techniques applied in this study. Current study has predominately used quantitative data to explicitly analysis the descriptive qualities the study. In the first level of the study reviews and theories related to the study were sourced from desk research i.e., from quantitative method. An extensive field survey was conducted among the chosen sample population in the second level of study that was conducted to strengthen the descriptive analysis of the study.

Study Area

The study is conducted in the Coimbatore city. It has been observed from various studies and reports that South India is the highest Chit Fund Investors in India. Thus, the study is focused on one of the prominent South Indian city, Coimbatore, which is also called as Business Capital of Tamil Nadu.

Sampling Size

The sample size for the study is confined with 120 respondents.

Tools Used

Following tools are used in the study;

- Percentage analysis
- KMO and BARTLETT'S test was applied to measure the sample adequacy.

Limitations of the study

The study is focused on Coimbatore city only, time and energy factors restricted researcher to limit the geographical area of the study.

One of the primary limitation of the study is that most of the sample population were hesitant in expressing their opinion on investing in chit fund.

Review of Literature

[1]Woerheide (1982) conducted a study on “investor response to suggested criteria for mutual funds” in which he tested the effect of different factors. It was proved that factors like size of fund, effectiveness of marketing Programme and past return of funds have great impact. Among these the effectiveness of marketing Programme has strong impact.

[2]De Bondt and Thaler (1985)³ while investigating the possible psychological basis for investor behavior, argue that mean reversion in stock prices is an evidence of investor over reaction where investors overemphasize recent firm performance in forming future expectations.

Analysis and Interpretation

TABLE: 1
HOUSEHOLDS OPINION ON NATURE OF CHIT HAVE OWNED

Sl. No	Nature of Chit	No. of the Respondents	Percentage
1.	Bidding	69	57.50
2.	Lottery	51	42.50
	Total	120	100

Source: Primary Data

Interpretation

The above table depicts that, out of total respondents 57.50% of respondents are preferring Bidding chit and 42.50% are preferring Lottery Chit.

It's concluded from the table that majority of respondents are preferring Bidding chit.

TABLE: 2
HOUSEHOLDS OPINION ON SOMEPLACE HOLD OUR CHIT FUND

Sl. No	Opinion	No. of the Respondents	Percentage
1.	NBFC	49	40.83
2.	Unregulated Private Persons	71	59.17
	Total	120	100

Source: Primary Data

Interpretation

The above table depicts that, out of total respondents 59.17% of respondents are preferring Unregulated Private Chit Fund and 40.83% are preferring NBFC Chit Fund.

It's concluded from the table that majority of respondents are preferring Unregulated Private Chit Fund.

TABLE: 3
HOUSEHOLDS OPINION ON NUMBER OF CHIT FUNDS YOU CURRENTLY OWN

Sl. No	Number of Chit Funds	No. of the Respondents	Percentage
1.	One	65	54.17
2.	Two	37	30.83
3.	Three	11	9.17
4.	Four	4	3.33
5.	More than 4	3	2.50
	Total	120	100

Source: Primary Data

Interpretation

The above table depicts that, out of total respondents 54.17% of respondents are preferring one chit, 30.83% are preferring two Chit, 9.17% are preferring three Chit, 3.33% are preferring four Chit, 2.5% are preferring more than four Chit.

It's concluded from the table that majority of respondents are preferring One chit.

TABLE: 4
HOUSEHOLDS OPINION ON LONGEVITY HAVE BEEN SAVING MONEY THROUGH CHIT FUNDS

Sl. No	Longevity	No. of the Respondents	Percentage
1.	Less than 5 years	90	75.00
2.	6-7 years	19	15.83
3.	7-8 years	5	4.17
4.	8-10 years	6	5.00
	Total	120	100

Source: Primary Data

Interpretation

The above table depicts that, out of total respondents 75% of respondents are preferring less than 5 yrs. Chit, 15.83% are preferring 6-7 yrs. chit, 4.17% are preferring 7-8 yrs. Chit and 5% are preferring 8-10 yrs. Chit.

It's concluded from the table that majority of respondents are chit funds operating for lesser than 5 yrs.

TABLE: 5
VALUE OF CHIT OF THE HOUSEHOLDS

Sl. No	Value of Chit	No. of the Respondents	Percentage
1.	Rs 10,001 – Rs25,000	41	34.17
2.	Rs 25,001 – Rs 50,000	29	24.17
3.	Rs 50,001 – Rs 75,000	15	12.50
4.	Rs 75,001 – Rs 1,00000	18	15.00
5.	Rs 1,00001 – Rs 2,00000	12	10.00
6.	Above Rs 2,00001	5	4.17
	Total	120	100

Source: Primary Data

Interpretation

The above table depicts that, out of total respondents 34.17% of respondents are preferring chit value between Rs.10,000-Rs.25,000, 24.17% of respondents are preferring chit value between Rs.25,000-Rs.50,000, 12.5% of respondents are preferring chit value between Rs.50,000-Rs.75,000, 15% of respondents are preferring chit value between Rs.75,000-Rs.1,00,000, 10% of respondents are preferring chit value between Rs.1,00,000-Rs.2,00,000 and 4.17% of respondents are preferring chit value above Rs.2,00,000.

It's concluded from the table that majority of respondents are preferring chit value between Rs.10000-Rs.25000.

TABLE: 6
KMO AND BARTLETT'S TEST
HOUSEHOLDS LEVEL OF PERCEPTION TOWARDS
CHIT FUND OPERATIONS

Kaiser-Meyer-Olkin Measure of Sampling Adequacy	.801
Bartlett's Test of Sphericity Approx. Chi-Square	297.533
DF	91
Sig	.000

Level of Significance: 5 per cent

Interpretation

The Kaiser-Mayer-Olkin test is based on the correlation and partial correlation of the variables. Out of fourteen variables considered it has been found that the value of test statistic is 0.801, which means the factor analysis for the identified variables is found to be appropriate to the data. The Bartlett's test of sphericity chi-square (297.533) is used to test whether the correlation matrix is an identity matrix. Here the significant value is 0.000 which indicates that there exists significant relationship among the variables. The measure of KMO test and value of Bartlett's test indicate that the present data is useful for factor analysis. The next step in the process is to decide about the number of factors to be derived. The rule of thumb is applied to choose the number of factors for which "Eigen values" with greater than unity is taken by using principal component analysis (PCA) method. The component matrix so formed is further rotated orthogonally using varimax rotation algorithm.

Findings

Following are the findings of the study,

The study detected that 57.50% of the chit fund investors are preferring Bidding chit. Majority of the households are preferring chit funds from Unregulated Private Persons. And out of which 54.17% of respondents are preferring only one chit at time.

It has been understood that majority i.e. 75% of households are preferring less than 5 years Chit. Further its inferred that out of total households of respondents are preferring chit value between Rs. 10,000-Rs. 25,000.

Majority of the sample households are found to prefer chit fund saving to Meet Festive Expenses. majority of the sample households are found to perceive chit fund on the basis of the popularity of chit fund.

Suggestions

Suggestions of the study undertaken are;

As Chit Fund is considered to be the attractive investment option for Salaried Class and Self Employed people, the Chit fund practices need high discipline of financial management and regulations. More than 90 per cent of the chit funds are family owned. Registration for chit fund practices can be made compulsory so which in turn will encourage the people to invest more in the chit funds.

V. CONCLUSION

The formalities to open chit fund accounts are very simple. Chit companies do not require much documentation, which is one of the advantages over banks and other financial institutions. Some of the companies, however, ask for income proof and address proof from new member but most of the cases is not a mandatory requirement. Therefore, it helps the investors to invest more in the chit funds.

REFERENCES

- [1] Shailesh Menon (2018), How GeNext and New Entrants Are Working to Upgrade Chit funds, The Economic Times, 26th June.
- [2] Sobhesh Kumar Agarwalla, Samir K. Barua, Joshy Jacob and Jayanth R. Varma (2016), Chit Fund Participation and Sources of Economic Value, Indian Institute of Management Ahmedabad, Field Survey Analysis Report, December, <https://faculty.iima.ac.in/~iffm/literacy/Chit-fund-field-survey-report.pdf>
- [3] Rangarajan.R, Ponnarasi. B and Duraiarasan R.M (2013), Investors Attitude towards Local Chit Funds (A Study with Special Reference to Triplicane), Knowledge Economy, PP:30-35, September.
- [4] Sallyamma Job (2003), A Study of Chit Finance in Kerala with Special Emphasis on Kerala State Financial Enterprises Ltd., Thesis submitted to the Cochin University of Science and Technology for the award of tile Degree of Doctor of Philosophy under the Faculty of Social Sciences, Cochin, February.