

**A STUDY OF CHIT FINANCE IN KERALA  
WITH SPECIAL EMPHASIS ON  
KERALA STATE FINANCIAL ENTERPRISES Ltd.**

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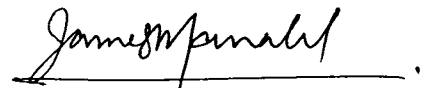
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## CERTIFICATE

*Certified that the thesis "A Study of Chit Finance in Kerala with Special Emphasis on Kerala State Financial Enterprises Ltd." is the record of bonafide research carried out by Smt. Sallyamma Job under my guidance. The thesis is worth submitting for the Degree of Doctor of Philosophy in social sciences.*

**Dr. James Manalel**

  
**(Supervising Guide)**

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# **CHAPTER ONE**

## **INTRODUCTION**

The strategic role of the financial system is to channel funds from surplus units to deficit units. The financial system comprising the set of institutions, markets and instruments facilitates capital formation and accelerates the pace of economic development. The gap between gross capital formation and gross domestic savings in India necessitates the need for augmenting the growth rate of voluntary domestic savings. So, the working of different financial intermediaries for mobilising savings from various income categories will have to be widened and strengthened. It is in this context that one has to appreciate the role of the Non-Banking Financial Intermediaries in supplementing the functions of the Banking Institutions.

The Non-Banking Financial Intermediaries' ability to purvey funds depends to a large extent on the resources they can mobilise. Miscellaneous Non-Banking Companies or Chit Funds being a category of Non-Banking Financial Intermediaries, contribute significantly to the value of financial markets in India.

### **1.1 NON-BANKING FINANCIAL COMPANIES (NBFCs)**

Non-Banking Financial Companies have emerged as an integral part of the Indian financial system. NBFC is a generic term, which includes a host of different types of institutions performing various types of financial services. Sub-section (b) of section 45-1 of the Reserve Bank of India Act, 1934 defines a Non-Banking Financial Company as: (a) a financial institution which is a company; (b) a non-banking institution which carries on the business of accepting deposits under any scheme, arrangement or any other manner or the business of lending in any manner and (c) any other non-banking institution or class of institutions which the Reserve Bank may

notify in the official Gazette with the previous approval of the Central Government.<sup>1</sup> They are generally categorised into the following types on the basis of their principal business.

- Equipment Leasing Company (ELC)
- Hire Purchase Company (HPC)
- Loan Company (LC)
- Investment Company (IC)
- Mutual Benefit Financial Company or '*Nidhi*' Company (MBFC)
- Housing Finance Company (HFC)
- Residuary Non-Banking Company (RNBC) and
- Miscellaneous Non-Banking Company (MNBC) ie., Chit Fund Company

## **1.2 MISCELLANEOUS NON-BANKING COMPANY**

The principal business of MNBCs or Chit Fund Companies is managing, conducting or supervising as a promoter, foreman, or agent of any transaction or arrangement by which the company enters into an agreement with a specified number of subscribers that everyone of them shall subscribe a certain sum in instalments over a definite period and that each such subscriber shall in his turn, as determined by lot or by auction or by tender or in such manner as may be provided for in the arrangement, be entitled to the prize amount.

Chit Funds are saving devices through pooling of money by a group of persons by way of periodical instalments of fixed amount paid over a fixed period of time under *inter-se* agreement that each member of the group is entitled to the pooled amount. The scheme involves three functions such as pooling together the scattered savings of a group of individuals, lending out the collected savings to a member of the group and continuing the process of collection and distribution of amounts for a certain period.

### **1.3 'CHIT' – AN AGREEMENT**

The 'Chit' is an agreement by the subscribers with the foreman, who conducts the Chit. The Kerala *Chitties* Act <sup>2</sup> defines the Chit agreement as the document containing the Articles of agreement between the foreman and the subscribers of the Chit. It contains provisions as to the number of instalments, amount payable for each instalment, provision of interest for default or late payment of instalments, manner of conducting the auction, determining the bidder in the auction, mode of disbursement of discount, limit if any on the discount, manner of disbursing the Chit amount, details of security to be offered by the prized subscribers, etc.

Chit foreman has been described as the hub of the *Chitty* wheel.<sup>3</sup> It is the foreman, who links the savers and borrowers together for their mutual benefits. The small savings which otherwise might find little productive application have been mobilised and turned into tangible wealth by his catalytic action. Thus the foreman acts as a social functionary. From an individual foreman, with very limited resources and area of operations, the proprietor of a Chit has grown into a company managed by a Board of Directors or to a public sector Chit company, having abundant resources and wider frontiers of business. These changes have had far reaching influence in the sphere of Chit Finance in Kerala. This unique financial institution facilitates savings and capital formation even among the poor in the society.

### **1.4 ORIGIN OF CHIT FUNDS**

This indigenous financial institution had its origin in the State of Kerala as Grain Chit or '*Dhannya* Chit', centuries back. 'Chit' means a written note on a small piece of paper. In Malayalam language, it is known as '*Kuri*', a synonym of Chit. The 'Chit' or '*Kuri*' is a derivative, the root being the 'lot'.

The Chit Fund business is administered by the respective State Governments through the offices of the Registrar of Chits. The Chit Fund

Companies are exempted from the requirement of registration under the RBI Act. However, the deposit acceptance activities of these companies are regulated under the Miscellaneous Non-Banking Companies (MNBCs) Directions, and those relating to the advertisement for soliciting deposits are governed by the Non-Banking Financial Companies and Miscellaneous Non-Banking Companies (Advertisement) Rules, 1977 framed by the Government of India under section 58 A of the Companies Act, 1956.

### 1.5 CONCEPTS AND DEFINITIONS

“*Chitty*” means a transaction, whether called Chit or *Kuri*, by which one or more persons, hereinafter called the “Foreman” or “Foremen”, enter into an agreement with a number of persons that every one of the contracting parties shall subscribe a certain amount of money or quantity of grain or other commodity by periodical instalments for a certain definite period and that each in his turn, shall be entitled to the prize amount, whether payable in cash, kind or any other article of value or in such other manners that may be provided for in the agreement.<sup>4</sup>

“*Chitty amount*” or ‘*sala*’ means the sum total of the subscriptions payable by all the subscribers for any instalment without any deduction for discount.

“*Discount*” means the amount of money or quantity of grain or other commodity, which a prize winner has, under the terms of the ‘*variola*’, to forego for the payment of ‘*veethapalisa*’, foreman’s commission or such other expenses as may be prescribed.

“*Variola*” means the document containing the articles of agreement between the foreman and the subscribers relating to the Chit.

“*Veethapalisa*” means the share of a subscriber in the discount available under the *variola* for rateable distribution among the subscribers at each instalment of the Chit.

“**Drawing**” includes the mode of ascertaining the prize-winner at any instalment of the Chit by lot or by auction or in such other manner as may be provided for in the ‘*variola*’.

“**Foreman**” means the person who, under the *variola*, is responsible for the conduct of the Chit and includes all persons taking his place under section 35 of the Act.

“**Subscriber**” includes a person who holds a ticket or fraction of a ticket and also a transferee by assignment in writing or by operation of law.

“**Ticket**” means the share of a subscriber in a Chit, which entitles the holder thereof to the Chit amount at any one instalment with or without any deduction by way of discount.

“**Prize amount**” means the Chit amount whether payable in cash, kind or in any other article of value, less the discount.

## **1.6 DIFFERENT CATEGORY OF CHIT FUNDS.**

Chit Funds are of different categories, which come under the broad heading, ‘Chit Finance’. In Kerala they include the public sector Chit Company (The Kerala State Financial Enterprises Ltd.), Co-operatives, Private Chits and those in the informal sector.

## **1.7 KERALA STATE FINANCIAL ENTERPRISES LTD. (KSFE)**

The KSFE, a fully owned Government Company was established in the year 1969 as a discipline factor to private Chit Funds. The share of KSFE in the total volume of Chit business registered in Kerala is 77 per cent as on March 2000, though the number of Chits registered is only 37.5 per cent. KSFE has been included in the few profit-making public companies in the State with a profit of Rs.793 Lakhs at the end of March 2000. There are over 11 Lakh subscribers in various schemes of KSFE. The number of Chits run by KSFE amounts to 7,446 with a total capital (*sala*) of over Rs.952 Crore.

**Table 1.1**  
**Number and *Sala* of Registered Chits**  
**as on March 2000 (Rs. Lakhs) Institution-wise**

Name of the Institution	Number of Chits / <i>Kuries</i>	Share of each to total Percentage	Capital <i>sala</i>	Share of each to total Percentage
1. KSFE	7446	37.5	95249	77
2. CO- OPERATIVES	8793	44.2	21101	17
3. PRIVATE CHITS	3633	18.3	7701	6
<b>Total</b>	<b>19872</b>	<b>100</b>	<b>124051</b>	<b>100</b>

Source: Government of Kerala, Legislative Assembly Interpretation Registration Dept. I.G of Registration, Trivandrum.

The Number of Chits run by Co-operative societies amounts to 8,793 (44.2%) with a total capital (*sala*) of Rs.211 Crore (17%) and the number of Chits run by Private Chit Funds amounts to 3633 (18.3%) with a total capital (*sala*) of Rs.77 Crore (6%) for the above period. It is thus clear that KSFE Ltd. has the predominant share in Kerala's Chit industry. Table 1.1 above presents the growth of the Chit Fund Industry in the registered sector only. The actual volume of Chit business would be several times greater if one included the volume of Chits in the informal sector and those with bases outside Kerala.

### 1.8 CO-OPERATIVES

Co-operative Institutions are also conducting Chit business as one of their most profit making schemes. Wide prevalence of co-operatives even in the remote villages enables the mobilisation of the scattered savings among the common people. To escape from certain provisions of the Kerala *Chitties* Act, the co-operatives have started 'Chit like' schemes <sup>5</sup> such as Monthly Deposit Scheme (MDS) and Mutual Benefit Scheme (MBS) without getting Chits registered with the Registrar. Though the number of registered Chits with the co-operatives forms 44.2 per cent, the share of it in the total volume of Chit business is only 17 percent.

## **1.9 PRIVATE CHITS**

Private Chit Funds have flourished in Kerala from time immemorial. Though the share of private Chits forms 18.3 per cent in the number of Chits registered, their share in the total volume of Chit business is only 6 per cent. This is due to the reason that a considerable volume of Chit business in the private sector are conducted without registration in the State and therefore outside the purview of official records.

## **1.10 INFORMAL CHITS**

Along with the formal Chit Fund sector, there exists a highly heterogeneous and dynamic informal sector, with huge volume of business. This includes Chits conducted by the associations of traders/merchants, employees in the offices and those informal Chits in urban and rural localities, churches, temples, educational institutions, small and medium Chits in the neighbour-hood run by housewives, etc. In every nook and corner of Kerala, one can find ‘Chit collectors’<sup>6</sup> mobilising substantial amounts of savings daily for which authentic data is not available. Though the presence of informal Chit sector is significant, there have been numerous cases of fraud, misappropriation, disappearance of foremen, etc., which cause loss to the subscribers and damage the reputation of Chit Funds Industry in the State.

## **1.11 STATEMENT OF THE PROBLEM**

Our analysis of Table 1.1 had established the predominant position of KSFE in Kerala’s Chit industry. However, this statistics takes into account only the data from registered Chits. But it is a well-known fact that there is a much larger unregistered informal sector on which we have no reliable data. The continued popularity of the non-registered sector even after so many years of existence of KSFE and the implementation of *Chitty* Acts is intriguing and calls for a detailed enquiry.



It has to be appreciated that the pre-eminent position of KSFE is very good for the healthy growth of the entire industry. However, despite the remarkable growth of KSFE, there are many forces in the environment, which act as a threat to the organisation and to the Chit industry as a whole.

Chit business in Kerala flourished in the hands of private monopoly till the implementation of the Kerala *Chitties* Act, 1975. The Act was brought into force to introduce a unified procedure to regulate the Chit business in Kerala and to protect the interests of the Chit subscribers. But the implementation of the Act resulted in an exodus of foremen from Kerala to other states for starting Chits, especially from bases in Jammu & Kashmir and Haryana defeating the very purpose of the Act. At the same time, why the foremen rushed out of the State has not been comprehensively accounted for.

The introduction of the Central Chit Funds Act, 1982 <sup>7</sup> was expected to take care of this exodus. However many States including Kerala have not yet adopted the Central Chit Funds Act. Hence there is the need to examine the limitations of the existing Chit legislation and the whole gamut of it in the light of the experience gained so far.

Despite the growth of a wide range of savings avenues and the widespread network of banks and other financial institutions, Chit scheme still forms an important part in the asset portfolio of many households and firms in Kerala. The promoters of Chits in the private sector appropriated for themselves substantial amounts accruing out of their management and there was also ample scope for exploitation of the subscribers. With a view to ensure safety, security and better service to the Chit subscribers, the State Government established, The Kerala State Financial Enterprises Ltd. (KSFE) in 1969 for conducting Chit business and other financial transactions. The objective of starting KSFE was to check the mushroom growth of private Chit Funds by offering effective competition and thereby safeguarding the interests of the Chit subscribers. The co-operative sector also has developed into a stronghold of Chits. In addition, there is the conspicuous presence of the informal Chit Fund sector. Though there are different avenues of savings

and different categories of Chit Funds mobilising the scattered savings of the people, what motivates the subscribers in preferring Chits and also particular types of Chit institutions has not been examined.

One of the most important objectives in setting up KSFE Ltd. as already mentioned was that it would take up the leadership in Chit Funds business as a whole and thereby safeguard the interests of subscribers by offering effective competition. Hence it is also worth examining the effectiveness of KSFE as the leading institution in this industry. There has been criticism against the complicated formalities, inadequate customer service and the high rate of interest charged on its loans. The high default rate, the under utilisation and mismanagement of funds have been subjected to lively discussion. Red-tapism and bureaucratic delays in the operation of KSFE and its role as a competitor to other Chit Fund institutions have been questioned by many, and so needs to be examined and evaluated. As part of the current economic policies, KSFE might even face the threat of disinvestment and if so has to forgo the privileges enjoyed by it as a government company.

Hence, there is need for a study, which seeks to make an inter-institutional comparison between various categories of Chit Funds. It also requires a detailed analysis of the challenges and opportunities of KSFE from a strategic management angle.

### **1.12 SCOPE AND RELEVANCE**

The present study entitled “ A Study of Chit Finance in Kerala with special emphasis on Kerala State Financial Enterprises Ltd. ” hence examines the socio-economic aspects of Chit schemes run by the private Chit Funds, KSFE, co-operatives, and informal Chit Funds. The study is an attempt to find the reasons for the growing popularity of Chit Funds as savings cum borrowing avenues even in the presence of various other avenues of savings and borrowings and also to understand how the Chit subscribers utilise the funds. This study also examines the limitations of the

Chit Acts and suggests suitable recommendations. An analysis of the working of Chit Funds helps us to suggest the necessary measures required for improving the functioning of such institutions.

The study takes stock of the working of Chit Funds in general and KSFE in particular, reviews the performance and estimates the cost and return on Chits. The study covers the period from 1960 to 2001. KSFE was selected as the focal point of the study for the following reasons:

1. The Kerala State Financial Enterprises Ltd. is a unique experiment as the only public sector Chit Fund Company in the whole of India, which is fully owned by a state government.
2. KSFE is the dominant foreman in the Chit business in Kerala managing about 77 per cent of the total Chit capital (*sala*).
3. The presence of KSFE is believed to check the unscrupulous operation of private Chit business.
4. The KSFE is one of the few profit making public sector enterprises in the State and also generates direct employment opportunities to more than 3000 persons.

The review of literature shows that there are only a few studies on Chit Finance. The All India Rural Credit Survey District Monograph, Quilon (Reserve Bank of India, 1958) <sup>8</sup> is one of the first attempts at a scientific enquiry into the working of Chit Funds. But it surveyed the Chit Funds of a very limited area only. The reports of the study groups appointed by RBI and Government of India from time to time have explained their working in some detail and made a few recommendations for the healthy growth of NBFCs including Chit Funds. <sup>9</sup> Individual researchers like C P S Nayar (1973) <sup>10</sup> and Radhakrishnan, S (1975) <sup>11</sup> have done pioneering works on Chit Finance, but these studies are rather too old and hence may not reflect the present picture.

Although there are studies on Chit Finance, there is no specific comprehensive study on the public sector Chit Fund Company (KSFE) especially, in comparison with its competitors. In this context, an enquiry is apt

to be made on the socio-economic objectives and the performance of KSFE vis-à-vis the other Chit Fund companies in the financial sector of Kerala.

### **1.13 OBJECTIVES OF THE STUDY**

The objectives of the study specifically are: -

1. To examine the trends and pattern of growth of Chit Funds in the formal sector in Kerala.
2. To assess the performance of KSFE as the only public sector Chit Fund Company in India.
3. To identify the determinants behind the preferences for joining Chit Funds.
4. To estimate the cost and return on Chit Funds.
5. To assess and compare the relative preferences of Chit subscribers towards KSFE with that of other Chit Funds.
6. To identify the major problems of Chit Funds in Kerala in general and KSFE in particular.
7. To make suitable suggestions for improving the working of KSFE and Chit institutions in general.

### **1.14 SOURCES OF DATA AND METHODOLOGY**

The study is based on data both from primary and secondary sources. To study the trend, volume and growth of Chit business in the formal sector, data have been collected from the Registration Department, Government of Kerala and from Registrars' Offices at district level. To assess the performance of KSFE Ltd, data have been collected from the head-office and from its various branches selected randomly. Data were also collected from Reports, Journals, Books, Reserve Bank of India Publications and Government Publications.

To study the trend and volume of Chit business run by co-operative societies, data have been collected from the State administrative office of co-operative societies at Trivandrum, and Joint-Registrar's offices at the district level. An attempt was also made to collect data on Chit Fund

institutions registered outside Kerala especially from bases in Jammu and Kashmir and Faridabad with the help of Chit Foremen Associations.

A survey among subscribers has been conducted to identify the motivational factors behind joining Chits, reasons for preferring various categories of Chit Funds, to analyse the fund utilisation pattern of Chit subscribers, to trace their problems and to obtain suggestions for the better performance of the institutions.

A survey among KSFE employees was conducted to get their opinion on KSFE schemes, its problems and level of customer service.

Personal interview was conducted with a number of private Chit foremen including those who are registered and with bases outside Kerala to study their working, the rights and obligations, the legal aspects of their registration, the problems faced by them and also to collect suggestions.

### **1.15 THE SAMPLING DESIGN**

A sample of 400 Chit subscribers was selected from all the traditional three regions <sup>12</sup> in Kerala, namely, Trivandrum, Ernakulam and Calicut. The selection of these districts was also guided by the fact that these are the three districts with the highest volume of Chit business. A fourth district, viz. Trichur, also was selected due to the strong presence of private and informal Chit Funds. It also coincides with the location of KSFE headquarters.

The sample subscribers were selected from all the four districts, from among different categories of Chit Funds, namely, KSFE, co-operatives, private and informal, by taking into consideration their share in the volume of Chit capital and also to represent rural and urban areas. Accordingly 160 (40%) subscribers were taken from KSFE, 114 (28.5%) from co-operatives, 86 (21.5 %) from private, and 40 (10%) from the informal sector. Selection of sample subscribers was made at random from the subscribers' list with the foremen, by giving representation to rural and urban areas.

A sample of 165 KSFE employees was selected from the four districts: Trivandrum-50, Ernakulam-45, Trichur-40 and Calicut-30, taking into consideration the staff strength in the respective districts.

#### **1.16 TOOLS OF ANALYSIS**

Simple statistical tools such as averages, percentages and ratios are used for the analysis of data.

To examine the trend in the number of Chits registered and in the volume of Chit business, trend analysis by the method of least squares has been used.

Scoring and Ranking Method has been used to identify the determinants behind the preferences for joining Chit Funds.

To estimate the cost and return on Chits, Discounted Cash Flow Method has been used.

To assess and compare the relative preferences of subscribers to various categories of Chit Funds, Chit Funds Rating Analysis (Competitor Rating Analysis) has been used. Ranking of parameters done by the subscribers, vis-à-vis its peers have been used to work out Chit Funds Rating. Weights have been (different levels) given to these ranks to rationalise them.

BCG Growth-Share Matrix, Default-Revenue Matrix and SWOT Analysis have been used to identify the challenges and opportunities of KSFE as a Chit Fund Company in comparison to its competitors. The present study being exploratory in nature does not advance any hypothesis.

#### **1.17 LIMITATIONS OF THE STUDY**

The inability to estimate the volume of Chit business operated by the private Chit Funds from bases outside Kerala poses difficulties.

Similarly there is paucity of reliable data on the huge volume of Chit business in the informal sector.

The general reluctance of the people to reveal data on income and savings made the task of collecting data somewhat difficult.

### **1.18 SCHEME OF THE STUDY**

The study is presented in seven chapters. The introductory chapter presents the statement of the problem, scope, objectives and the research methodology adopted.

The second chapter reviews the available literature in the area and highlights the theoretical backing.

Chapter Three gives an overview of the evolution, growth and importance of Chit Funds with its unique features, the operational techniques used by different Chit institutions and an estimation of the cost and return on the Chit scheme.

Chapter Four presents the origin, development and performance evaluation of KSFE in the State of Kerala.

The fifth chapter presents the motivational factors for joining Chits, particular types of Chit Funds, an analysis of the problems of Chit subscribers and a comparative assessment of various Chit Funds in Kerala.

Chapter Six analyses the challenges and opportunities of the Chit Fund industry with special emphasis to KSFE.

The concluding chapter provides a summary of the findings, makes suggestions and discusses policy implications.

## Notes and References

1. Statutory Guide for Non-Banking Financial Companies: An Authorised Publication of Reserve Bank of India. The Taxman Allied Services Pvt. Ltd., (2000), pp.1-12.
2. The Kerala *Chitties* Act, 1975 (Act 23 of 1975). An Act to define, amend and consolidate the law relating to *Chitties* in the State of Kerala, Ganesh Publications, Kochi, (1995), p.1.
3. Nayar, C.P.S. *Chit Finance: An Explorative Study on the Working of Chit Funds*, Vora and Co. Publishers Pvt. Ltd., Bombay, (1973), p.115.
4. The Kerala *Chitties* Act, 1975, op. cit., p.2.
5. The 'Chit-like' Schemes function exactly like the Chit scheme. They can be conducted by co-operative society/bank without registration after obtaining sanction for their bye-laws from the Joint Registrar of Co-operatives of the concerned circle, thereby escaping from the provisions of the Kerala *Chitties* Act, 1975. Such schemes fall outside the purview of official Chit records.
6. Agents or commission agents who collect Chit subscription regularly at the door of the clients.
7. The Chit Funds Act, 1982. (Act No. 40 of 1982). An Act to provide for the regulation of Chit Funds and for matters connected with it, Law Publishers (India) Pvt. Ltd., (1998).
8. All India Rural Credit Survey, District Monograph, Quilon, Reserve Bank of India Publication, Bombay, (1958).
9. For example: (i) The Report of the study group on Non-Banking Financial Intermediaries: Banking Commission, Government of India, (1972), had recommended the need for a uniform Chit Funds legislation applicable to the whole country. The Commission also observed that it would be desirable to provide in the legislation that only public limited companies can run Chit Funds.



(ii) The Report of the study group on Non-Banking Companies under the Chairmanship of James S Raj (1974) recommended for the enactment of the central legislation for Chit Funds. The group also recommended that the administration of the law should be left to the State government concerned which in turn could seek the advice and assistance of the RBI on policy matters. They recommended a ban on prize Chits/ benefits / saving schemes, as these were detrimental to general public interest.

(iii) The Report of the working group on financial companies, under the Chairmanship of A C Shah (1992).

10. Nayar, C.P.S. op.cit.

11. Radhakrishnan, S. et al, *Chit Funds and Finance Corporations*, IFMR Publications, Madras, (1975).

12. Traditionally Kerala consisted of three regions namely the princely States of Travancore, Cochin and the region of Malabar. On November 1, 1956, these regions were merged to form the new State called Kerala.

## **CHAPTER TWO**

### **REVIEW OF LITERATURE**

This chapter attempts a review of the available literature related to the topic. For an orderly discussion, the chapter has been divided into two parts. The first part gives a theoretical and empirical background to the study on Chit Funds and in Part II a review of various studies on Chit Funds are given.

#### **PART I**

Capital is a crucial factor in the development of any economy. Theoretical studies have categorically stated that savings and capital formation can be enhanced with the development of the financial system. The basic principle underlying Chit Finance is accumulation of savings through mutuality. Hence it seems appropriate to discuss some of the relevant theoretical issues on savings and capital formation.

Economists have developed several theories on Savings and Investment. There are at least two broad views on the determinants of national savings. One view stems from the classical and neo-classical school, which stresses the rate of return or interest on savings, and the other stems from Keynesians and modern economists, which stresses income. A section-wise thematic analysis has been attempted here on the topic covering savings, capital accumulation, financial intermediation and investment.

#### **2.1 SAVINGS**

According to Alfred Marshall <sup>1</sup> (1890) there are both economic and non-economic factors influencing savings. Among the economic factors, the key role is given to rate of interest.

Keynes<sup>2</sup> (1936) on the other hand stated that men are disposed, as a rule and on the average, to increase their consumption as their income increases, but not by as much as the increase in their income. In other words a rising income will often be accompanied by increased saving, and a falling income by decreased saving, on a greater scale at first than subsequently.

V.K.R.V Rao<sup>3</sup> (1952) stated that the agrarian nature of the economy makes for a supply curve that, at best, is much more inelastic than that of an industrialised economy such as Keynes primarily had in mind. Savings therefore fail to rise to equality with investment.

Duesenberry<sup>4</sup> (1949) in his Relative Income Hypothesis (RIH) argued that the fraction of a family's income devoted to consumption and hence savings depends on the level of its income relative to the income of other families with which it identifies rather than on the absolute level of its income.

The Life Cycle Hypothesis (LCH) of Modigliani and Brumberg<sup>5</sup> (1954) observed that the individual's consumption and hence savings in any given time period does not depend to a significant degree on his income during that period but depends on the present value of his expected income or his wealth. LCH is based on the argument that the rate of consumption in any given period is a facet of a plan, which extends over the balance of the individual's life, while the income accruing within the same period is but one element, which contributes to the shaping of such a plan.

According to Hla Myint,<sup>6</sup> (1965) a country's rate of economic growth depends not only on how much it can save, but also on how productively it can invest this saving.

## **2.2 CAPITAL FORMATION**

Classical economists with very few exceptions recognise the causal nexus between saving, investment, technological progress and economic development. They emphasise that profit induces investment, and the larger

the profits, the greater the capital accumulation. Adam Smith<sup>7</sup> (1776) for instance, stressed the need for capital to increase the productive power of the labourers. According to David Ricardo<sup>8</sup> (1817) economic growth is contingent upon capital accumulation, and contended that whatever is saved is invested. Mill's<sup>9</sup> (1848) fundamental propositions with regard to capital represent the classical position on saving, investment and economic development. Mill's first proposition is that industry is limited by capital. A second proposition is that all capital was originally the result of saving.

Karl Marx<sup>10</sup> (1867) too gave primacy to accumulation in his analysis of Capitalist Development. The magnitude of the capital accumulated clearly depended on the absolute magnitude of the surplus value.

Irma Adelman<sup>11</sup> (1962) stated that the rate of capital accumulation is regulated by two factors, namely, the ability to save and the will to save. How large a fraction of their 'net income' they consume is determined by the intensity of their motive for saving, the rate of profit. See also Meade<sup>12</sup> (1962) and Arthur Lewis<sup>13</sup> (1970).

### **2.3 ROLE OF FINANCIAL INTERMEDIATION IN SAVINGS AND CAPITAL FORMATION**

There are a number of studies such as Gurley and Shaw<sup>14</sup> (1967), McKinnon<sup>15</sup> (1971) and Patrick<sup>16</sup> (1983), which have clearly established that savings and capital formation are enhanced with the development of financial intermediation.

Warren F. Lee<sup>17</sup> (1968) argued that financial institutions can help potential savers and borrowers by adjusting to their different behaviour, and this process will increase the community's investments and productivity and will help even the poorest rural people to participate in effective credit and savings mobilisation programmes.

Arnaldo Mauri<sup>18</sup> (1977) pointed out that savings mobilisation requires a system of financial intermediaries and co-operatives at the grass

roots and that savers must have a wide choice of safe financial assets offering attractive returns.

Bouman <sup>19</sup> (1977) in his paper “Indigenous Savings and Credit Societies in the Developing World: A Message” revealed that organisations of farmers who periodically contribute money in small sums and receive one large amount at one time in rotation constitute an informal mechanism that mobilises savings and in some cases supports productive investments. According to him such Rotation of Savings and Credit Associations (ROSCAs) have been highly successful due to their accessibility, simple procedures, flexibility and adaptability to many purposes. The ROSCA through its ‘forced’ savings mechanism is instrumental in resource accumulation. Its role in productive agricultural investment might be larger than hitherto assumed (See also Leonard TcRuindjo, 1999). The popularity of ROSCAs among low and middle-income groups show that people like to save even under trying conditions (See World Development Report, 1981).

Dale Adams <sup>20</sup> (1978) showed that substantial potential exists for mobilising voluntary savings from rural households in developing countries. Opportunities to save and incentives to save are key factors in developing this potential. He argued that many low-income households in many countries do not save because they do not have opportunities or incentives to entrust their savings to financial institutions.

In “Finance Corporations: A study of unregulated banks”, Nayar<sup>21</sup> (1982) made an attempt to make a detailed study of the structure and functions of the informal financial intermediaries. He has examined whether they should be allowed to carry on the business of banking or not. The study made a strong case for their continuance and remarked that these informal financial intermediaries prospered largely due to their realistic attitudes towards many of the problems facing the borrowers and savers. They served both in rural and urban areas and their operations were flexible in adjusting to the requirements and conditions of the clientele.

Alvin Prakash<sup>22</sup> (1984) in his work “Private Financing Firms in Kerala- A Study” showed that since the beginning of the 1980’s there was phenomenal growth in private financing institutions in Kerala. This study based on a survey of these firms in Trichur town revealed that they have emerged as powerful parallel banking system in the town posing a threat to the normal banking system. The study concluded that there is need to regulate the activities of such firms through appropriate regulatory measures. It also showed that before imposing any regulatory measures, steps should be taken to remove the existing credit restrictions and also to expand credit facilities for business purpose.

Binu Daniel<sup>23</sup> (2000) in his work “Urban Informal Credit Markets: Structure, Dynamics and Intermediation” analysed the role and dynamics of the informal credit institutions in mobilising savings and supplying credit to different categories of people. The study is based on a survey of informal credit institutions in Ernakulam District. The study revealed that Chit Funds in the formal sector also conduct money-lending business unauthorised.

Ligeti Sandor<sup>24</sup> (1984) in his paper “Rural Savings and Agricultural Credit” revealed that both rural savings and agricultural credits are influenced by the survival of financial dualism. The traditional rotating savings and credit association has an ambiguous role in the developing countries. He argued that savings can be induced if financial institutions which, have no widespread rural network, establish rural offices. In small villages, mobile offices can serve the purpose and the amount of collected savings can be increased.

Bouman<sup>25</sup> (1989) in his book “Small, Short and Unsecured: Informal Rural Finance in India” discussed the performance of a number of financial agents in semi-urban Sangli, a district in Maharashtra. Bouman’s main focus of interest was, however, the informal financial intermediaries or agents such as moneylenders, pawnbrokers, milk vendors and several types of local self-help savings and credit associations that have increased dramatically in numbers in recent years. Bouman argued that the informal

sector acted as a catalyst and assisted small-scale borrowers to participate in the development boom in a formerly stagnant economic environment. The study also indicated that there was no clear dividing line between formal and informal financial markets, the two being closely intertwined. The Sangli experience demonstrated that linkages seem to develop spontaneously whenever and wherever people perceive such links as advantages.

“The Inherent Strength of Informal Financial Institutions” by Nayar <sup>26</sup> (1989) describes four major types of informal finance in India and identifies their strengths. It is argued that informal finance is often conducted more efficiently than formal finance in terms of loan processing, the ability to make small and short-term loans, and effective loan recovery.

Prabhu Ghate <sup>27</sup> (1992) in his work “Informal Finance: Some Findings from Asia” examined the role of informal finance in most Asian Countries. The form of informal finance that makes the greatest contribution to additive savings (that is savings that would not have been mobilised anyway by the formal sector in the absence of the informal) is mutual finance. The study noted the possibility also of an indirect effect on savings through the higher productivity of investment stemming from increased allocative efficiency because of the higher volume of intermediation made possible by the informal sector. The study was based on a research project that examined informal finance in India, Bangladesh, Indonesia, Philippines and Thailand.

## **PART II**

In Part II, a section-wise thematic analysis has been attempted on the topic covering growth, working and legislation of Chit Funds, their role and importance and the global scenario of Chit Funds.

### **2.4 GROWTH, WORKING AND LEGISLATION OF CHIT FUNDS**

In one of the earliest references to the existence of *Kuries*, Sim Cox<sup>28</sup> (1894) in his work “Primitive Civilization or Outlines of the History of

Ownership in Archaic Communities” has mentioned about the ‘Dravidian *Kuri* or Lottery’ that is used for raising a sum of money for some special purpose.

A striking reference on the origin of *Kuries* is found in Padmanabha Menon’s <sup>29</sup> (1920), work on “History of Kerala”. According to him *Kuries* developed as a source of finance for the national assemblies that prevailed in Malabar since the 8<sup>th</sup> century A.D.

Subbarama Aiyar <sup>30</sup> (1925) in his work “Economic Life in a Malabar Village” has described the working of ‘*Changati Kuri*’ where ‘lot’ decides every month the person to whom the amount is to be paid and the person who gets the sum is bound to entertain the members. It also traced out the superiority of Chit Funds over co-operative credit societies. The Chit Fund offered a fixed quantity of money at a flexible rate of interest - the rate of interest (the discount) on the Chit amount changing according to the demand for money. Thus it allowed freedom to its borrowers in fixing the rate of interest on the loan.

Thomas P. J. <sup>31</sup> (1948) in his work “Our Economic Heritage” has observed that *Kuri* is the indigenous form of banking in Malabar (Kerala).

William Logan <sup>32</sup> (1951) in his work “Malabar” has clearly mentioned the presence of a flourishing *Kuri* or Lottery system existing in the Society. He also described the operation of the *Kuri* system among friends known as ‘*Changaathi Kuri*’.

The Report of the Travancore-Cochin Banking Enquiry Commission<sup>33</sup> (1956) stated that most of the banks in the erstwhile Travancore-Cochin state grew out of the womb of Chit or *Kuri* Funds that have been operating in the State since ancient times.

The All India Rural Credit Survey <sup>34</sup> (1958) for the first time attempted a scientific enquiry into the working of Chit Funds. This enquiry appended to the Quilon District Monograph of the survey, analysed the organisation of Chit Funds in some detail, though of a very limited



geographical area. The survey report presented the position of the foreman as well as the subscriber. The report showed that the *Chitty* allowed a reasonable rate of interest to the subscribers who joined for investment purposes. The Survey mentioned the average duration of Chits as ranging between 28 and 84 months. The report of the enquiry stated that to study the working of a Chit Fund as a banking institution, it was probably more appropriate and logical to consider a fixed rate of interest on investment and a different higher rate of interest on loans.

Krishnan V <sup>35</sup> (1959) in his work "Indigenous Banking in South India" has dealt with indigenous savings institutions like Chit Funds and *Nidhis*. The study presented the general features of Chit Funds, different kinds of Chits and the malpractices existing in the system like delay in giving the prize-money, lack of transparency in accounting and failure in the payment of monthly subscription by the prized subscriber.

Sreedhara Menon<sup>36</sup> (1967) presented the position of the *Chitty/Kuri* business in the state of Kerala and traced out the need for bringing *Chitties/Kuries* under social control. The necessity for a separate legislation applicable to *Chitties/Kuries* throughout Kerala has also been emphasised in the study.

Nayar <sup>37</sup> (1973) in his study "Chit Finance: An Exploratory Study on the Working of Chit Funds" had tried to place the role of Chit Funds in the proper financial perspective. The study emphasised the need to regulate the activities of Chit Funds, but at the same time, perceived their role as active mobilisers of savings of the community and as a useful complement to other financial institutions. The work was an attempt to study all the known types of Chit Funds, classifying, naming and defining them wherever necessary. The study also attempted to examine the economic aspects of Chit Funds on an empirical and analytical basis. The analysis covered all the patterns of business of Chit Funds working throughout the country.

He also pointed out that the basic principle underlying a *Chitty* is accumulation of savings. The unique feature of savings in a *Chitty* as against the savings in other types of financial institutions such as commercial bank, the post-office savings bank, etc., is that there is a sort of compulsion in effecting savings. While examining the history of Chit Funds, Nayar has also discussed different stages of their evolution.

Radhakrishnan <sup>38</sup> (1975) in his work “Chit Funds and Finance Corporations” attempted to look at the working of Chit Funds primarily from the angle of the subscribers. It examined critically the working of prize and auction Chits. It also traced the growth of Chit Funds particularly in Tamil Nadu. The study also brought out the abuses and malpractices in Chit Funds and argued for stringent regulations and for their effective administration. The study called for a ban on acceptance of deposits by unincorporated Chit Funds and similar agencies. The study also opposed the entry of public sector and commercial banks into the business of Chit Funds. It attempted to show that Chit funds are neither a cheap source of credit nor an attractive medium of saving. The study also included various methods of estimation of economic gains and losses of the subscribers.

Radhakrishnan <sup>39</sup> (1979) in his work “*Nidhis*: An Indigenous Financial Institution”, made a study on a not so well known South Indian financial intermediary. After describing the characteristics and the functioning of “*Nidhis*” there has been a detailed discussion of their defects and deficiencies and the directions in which they ought to be reformed, through both self-regulation and government regulation. Based on this comprehensive study on “*Nidhis*”, the author came to the conclusion that they have a distinct place in the financial system. Hence they must be helped to keep their identity and must be brought under the RBI regulation.

Nayar <sup>40</sup> (1982) in his paper “Finance Corporations: An Informal Financial Intermediary in India” attempted a comprehensive study of finance corporations and similar indigenous financial institutions. The study tried to examine their role and operations in rural and urban areas, to identify the

factors leading to their growth, and to examine the existing legal framework of regulation and suggest changes if any. The study emphasised the need for strengthening the self-regulatory measures of the corporations and also for introducing some outside controlling measures to make up the deficiencies in self-regulations.

A study conducted by Organisation for Economic Co-operation and Development, Paris <sup>41</sup> (1987) had tried to analyse the break-up of the credit from the Chit Funds. The study showed that about 41 per cent of the prize amount from Chit Funds would go to the direct economic activity, 30 per cent to the acquisition of assets, while only 14 per cent went for personal consumptions for which the required assets could not be obtained from banks or financial institutions.

“Economic Implications of the Central Chit Funds Act 1982: An Appraisal” by Mohandas <sup>42</sup> (1988) attempted to evaluate the Central Chit Funds Act 1982 as a regulatory measure for Chit business. The paper dealt with the features of Chit Finance, conceptual issues involved in Chit Fund regulation and also with the economic implications of the major provisions of the Act. The study suggested a graduated ceiling on discount ranging from thirty to fifty per cent for Chits of different duration. To eliminate unnecessary competitive bidding, the study recommended restriction on open bidding up to twenty five or thirty per cent of the Chit amount and allow further bidding up to fifty or sixty per cent only on the production of cash deposits above the initial limit. The study also analysed the economic gain to the saver and cost of borrowing in terms of effective annual interest yield and effective annual interest cost.

Manjeshwar Ananth Pai <sup>43</sup> in the Paper “Chit Funds-Some Aspects of Tax Laws” (1995) argued that Chit Funds can be considered as mutual benefit associations. Accordingly income derived from such association has been exempted from income tax on the ground of mutuality. Since the basic proposition in the context of taxation is that no one can make a profit out of himself and this proposition still holds good when a number of individuals

join together and contribute to a common fund in pursuance of a scheme for their mutual benefit having no dealings or relations with any outside body.

“Report of the Study Group to Enquire into the Problems Faced by the Kerala State Financial Enterprises Ltd.”<sup>44</sup> (1999) by The School of Management Studies, Cochin University of Science and Technology, focused its attention on the appropriate strategies for improving the Company’s performance after identifying its strength, weakness, opportunities and threats. The study also included an analysis of the working of the company and suggested strategies to overcome the inherent problems. An enhancement of equity capital, promotion of Chit business, reduction of default, improvement of the accounting system and computerisation were some of the major recommendations of the study group.

“A Study on the Working, Achievements and Prospects of Kerala State Financial Enterprises Ltd.”<sup>45</sup> (1999) by Baburaj assessed the progress in the working of KSFE Ltd. and examined how far the company has succeeded in mobilizing the savings and efficiently utilizing it. The study found out the performance of the company in terms of volume of business achieved appeared good and the economic and social impact of various schemes of the company have been positive and significant. The study also presented some suggestions for the better performance of the company like appropriate training programme to the employees, better accounting system, autonomy in decision-making and operational flexibility.

“An Evaluation of Private Chits in Kerala” by Omana P V<sup>46</sup> (2000) attempted to evaluate various investment schemes with those of Chit schemes and presented the causes and failures of certain Chit organizations. The study revealed that the major causes for the failure of Chit companies are the failure to disburse the prize amount due to default by subscribers, poor financial position of the foreman, forgery in the number of members and misappropriation of funds by the foreman or members. It showed that 52 per cent of the private Chit companies were charging foreman’s commission

between 5 and 6 per cent and 36 per cent of Chit foremen were charging a commission of 7 to 8 per cent.

Bala Subramania <sup>47</sup> (2002) in his article “ The Thriving Chit Fund Business in the South” stated that the latest amendments in the Central Chit Fund Act will go a long way in making the ancient and India’s own financial institution of Chit industry more vibrant and a healthy business. The article showed that Chit firms were having better cash flows now due to the reduction in security deposit and higher discount limit on the prize money. This will also bring high return to the subscribers by way of more dividends. This article also cited the peculiar case in Kerala where the State Government itself is a big operator in the field. It also showed that most of the Chit Funds from Kerala are said to be operating out of Chandigarh, Faridabad and Jammu and Kashmir.

## **2.5 ROLE AND IMPORTANCE OF CHITS**

Srinivas and Higuchi <sup>48</sup> (1966) in their work “A Continuum of Informality of Credit: What Can Informal Lenders Teach Us?” observed that Chit Funds, credit societies and people’s organizations, have been grouped under the category ‘Mutual Credit Suppliers’ because the demand and supply of credit is mutual – that there is a give and take process involved. Participants typically support each other for credit needs in mutuality. The money supplied or saved by some participants is lent and borrowed by some other participants. Thus the benefits of the operation are mutual to all participants and equally distributed. The central idea of mutual credit suppliers is that they encourage savings from the participants.

“Report on the Survey of Household Savings and Investments in Kerala 1977-78” by State Planning Board, Trivandrum, <sup>49</sup> (1981) showed that a strikingly distinctive feature of household savings in Kerala has been the popularity of the Chit Fund schemes in the state. The survey had brought out that the Chit Funds accounted for the largest share of financial savings held by households in the state. It was also found that in terms of the savings

pattern, Chit Funds seemed to be more popular with the rural households (22.7 per cent of the financial savings of rural households as against the corresponding percentage of only 13.4 per cent for the urban household).

Nayar, <sup>50</sup> (1984) in his work "A Study on Non-Banking Financial Intermediaries" pointed out that Chit Funds have come to stay as a unique non-banking financial intermediary in India especially in South India. He also pointed out that the rationale of an Auction *Chitty* or Business *Chitty* is that the borrowers and lenders meet to fix the rate of interest and since there is more than one borrower competing for the same amount, a competitive rate of interest is offered. Only the members enjoy the benefits of the scheme. The study highlighted the fact that for the subscribers, the return on subscriptions was not the only consideration. The possibility of getting a lump-sum on easy terms at short notice was a great inducement. Hence, it is advisable to retain these within the framework of non-banking financial intermediaries as separate non-banking financial institutions controlled under Chit Funds Act 1982, by the state governments.

Nayar <sup>51</sup> (1986) in a subsequent paper "Can a Traditional Financial Technology Co-exist with Modern Financial Technologies? The Indian Experience" has tried to prove convincingly that Chit Funds not only co-exist with the fast growing formal banking sector, but also form a significant proportion of it.

The report of the study commissioned by the Asian Development Bank<sup>52</sup> (1989) lauded Chit Funds as the only system for both saving and borrowing effected under mutual help with dignity, scoring over other savings, credit and investment options being so flexible in operation. Their strengths, weaknesses and potential therefore deserve serious study on par with the rest of the more conspicuous denizens of the financial domain.

Itoop, M.L <sup>53</sup> (1990) in his work "Economic Significance of Chit Funds in Kerala" tried to identify the factors leading to the growth of Chit Funds in Kerala especially in the 1980's. He also examined its utility as a

saving instrument and supplier of easy credit and thus employment potential. The findings of the research revealed that *Kuries* help, industry, agriculture and even house construction. The only unproductive expenditure related to the money spent on marriages and on durable consumer goods. The study also found that the cost of credit is cheaper compared to the cost of credit with reference to commercial banks and other financial institutions.

Jose K G <sup>54</sup> (1990) in his study “Rural Transformation in Kerala: A Case Study with Reference to Three Panchayats” revealed that in all the three Panchayats, (namely Thazhava, Pananchery and Muttill), 191 persons out of 228 (84 %) surveyed had savings in the form of *Kuri*. The *Kuri* amount when obtained was generally utilized for house construction, purchase of land, marriage, etc.

Joseph M A <sup>55</sup> (1992) in his study “Chit Schemes: Relevance and Scope as Savings/Investment Alternatives” evaluated various savings / investment schemes available in comparison to the Chit schemes. It showed that Chit schemes can be treated as the best investment alternative available. The rate of return on Chit was calculated by dividing the annual dividend by the annual net subscription. The study showed that the rate of return calculated for a Chit was much more than the rate of return applicable to the various investment alternatives.

It also presented the various characteristics of Chit schemes and concluded that authorised Chit business was in the ruins due to the hard and stringent provisions of the enactments and KSFE was far away from the reach of the common people.

Baby Soosy <sup>56</sup> (1993) in her study “Savings/Investment and Capital Formation in a Rural Setting: A study of Udayamperur” found out that the most accepted form of saving for the respondent households was *Chitties* (28.2%). Deposits with the Banks formed 18.64 per cent of the savings, Provident Fund and LIC accounted for 7.76 per cent and 6.64 per

cent respectively. The study also showed that of the types of Chits, monthly Chits seemed to be more popular.

Radhakrishnan <sup>57</sup> (1995) in his paper “Chit Fund: A Poor Man’s Credit Institution” argued that Chit Funds and *Nidhis* have not received the attention they deserved in the scheme of reforms. The paper included certain measures of reforms to enable Chit Funds to grow on sound and healthy lines, including the introduction of credit rating for all incorporated Chit Fund Companies.

Rajendran <sup>58</sup> (1997) in his work “Rural Credit Management” attempted to provide a brief resume of the evolution of credit in Kerala, the different practices and the institutions concerned, since the beginning of the 19<sup>th</sup> century. The role of *Chitties*, operation of Chit Funds and the magnitude of the *Chitties* in terms of their number, extent and volume of operation up to 1936 have been included in the study. The study pointed out that the vital links between the pre-institutional and the institutional phases were provided by Chit Funds which gradually emerged into banking institutions.

## **2.8 GLOBAL SCENARIO**

The Chit Fund business is a universal phenomenon now. In Europe it is conducted in the name of ‘Rotating Credit’, in Philippines it is referred to as ‘*Paluwagons*’, in Korea it is named as ‘Key’ and in Sri Lanka it is called as ‘*Chetus*’.

According to F.J.A Bouman, <sup>59</sup> (1977) not only does the credit rotate, but the saving position rotates too and hence the term, Rotating Savings and Credit Associations (ROSCAs). A member saves until he receives the fund, after which he starts to repay the loan in instalments. The fund received by members at intermediate points in the life of the cycle includes a portion equal to the sum of their past contributions, their contributions to the fund on the occasion of their turn to take the fund and a final portion which is a loan to be repaid out of their future contributions. The Rotating Savings and Credit Association (ROSCA) are formed from a core of participants who agree



to regularly pay a certain amount of money to a fund, which in turn is distributed entirely or partially to each participant (Ardener, 1964) <sup>60</sup>.

Leonard TeRuindjo <sup>61</sup> (1999) in his study “The Evolution of an Informal Financial Institution: The Rotating Savings and Credit Associations in Cameroon” showed that the “Rotating Savings and Credit Association” (ROSCAs) mobilise resources, which would have been hoarded otherwise. The study revealed that ROSCAs accelerated the speed of circulation of money. The study also showed that the proliferation of these ROSCAs can be explained by their easy adaptation to the economic and social transformation of each epoch and by the inability of the formal financial system to integrate the local realities in its relationship with its customers.

World Development Report <sup>62</sup> (1989) has presented Rotating Savings and Credit Association (ROSCA) as a popular form of informal finance in a number of countries, which intermediate in the most basic way. The money collected (the fund) is given in rotation to each member of the group. The popularity of ROSCAs among low and middle-income groups show that people like to save even under trying circumstances.

Indira Rajaraman <sup>63</sup> (1995) in her article “The Role of ROSCAs” has tried to explain Rotating Savings and Credit Associations and their similarities with Chit Funds in India. The Article showed that these associations are functional in various parts of the world including highly developed countries. Random ROSCAs are similar to Prize Chits in India, while bidding ROSCAs are similar to our Auction Chits.

## **Conclusion**

The review of the available literature shows that although there are a few studies on Chit Finance and also on different aspects of financial intermediaries, there has been no specific comprehensive study on Chit Finance in Kerala with special emphasis on KSFE Ltd. The present study is an attempt to fill this gap to a certain extent.

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## **CHAPTER THREE**

### **EVOLUTION AND GROWTH OF CHIT FUNDS**

After reviewing the available literature related to the topic, this chapter traces in brief the origin of Chit Funds, different stages in its evolution and different methods of *Chitties* or *Kuries*. It also presents the unique features of Chits and the method of their operation. This chapter also discusses the growth of Chit business in terms of the number of Chits registered and the volume of Chit capital (*sala*) both before and after the formation of the Kerala State and also makes an institution-wise and region-wise analysis of Chit business. A comparison of the growth of Chit Funds with that of the domestic deposits as well as the total deposits with banks in Kerala has been attempted. This chapter also gives a bird's eye view of the legislative regulations on Chit Funds. As the last section of this chapter, an estimate of the cost and return on Chit scheme has been worked out by using different methods including the discounted cash flow method.

#### **3.1 THE ORIGIN OF CHIT**

The word 'Chit', suggests the origin of Chit Funds. 'Chit' means a written note on a small piece of paper. In the Malayalam language, it is known as '*Kuri*', which has been derived from '*Kurippu*' (which means a piece of writing or script). The '*Chitty*' or '*Kuri*'<sup>1</sup> is a derivative, the root being the 'lot'. The foreman writes the name of each subscriber on a small piece of paper and folds it several times with the name inside for the purpose of deciding the prize-winner. He calls it the '*Kuri*' or 'Chit' or '*Narukku*' and in the transaction, one '*Narukku*' also means one member.

The folded or rolled Chits or *Kuries* are put in a vessel containing some rice. The rice and the Chits are mixed well and a person is called upon

to pick one Chit from the vessel. The Chit is opened, the name read out and the member declared as prize-winner. At the next instalment, the prized Chit is removed from the vessel and the proceedings repeated. The Chit or *Kuri* thus plays a crucial role in the allotment of the prize amounts. Hence it is likely that the scheme itself came to be known after this important device <sup>2</sup>.

The literature relating to the historical references on Chits show that the *Chitty* business flourished in Travancore, Cochin and the Malabar areas <sup>3</sup> of the erstwhile state of Kerala and in the southern parts of the then Madras Presidency. Gradually it spread to the other parts of India. It seems to have developed in a peculiar way. An intelligent but needy man who has some social standing approaches a few of his friends to help him start a scheme for obtaining a certain measure of paddy or rice to meet some emergencies such as his father's '*Sraadhha*' (death ceremony) or daughter's marriage. He manages to get, say 9 of his neighbours, who agree to contribute 5 '*Idangazhis*' (an old unit for measuring grain in Kerala) of rice per month for a period of ten months to him and get the total contributions back in a lump by rotation. The original beneficiary also joins the group with the same rate of contribution (Nayar CPS 1973)<sup>4</sup>.

In the first month he collects 50 '*Idangazhis*' of rice from the 10 members including him and takes it for his purpose. In the second month, he collects the same quantity of rice and offers it to one of the remaining 9 members. Now, since every member equally deserves to receive the month's collection in advance, he decides to pick a lot to determine the prize-winner. He draws the lot and gives the entire quantity of rice to the winner. He repeats the process every month till all members get back their total contribution. He calls himself '*Munnal*' (Foreman), each of the members '*Chittal*' (Subscriber), the total contribution as '*Sala*' (Capital) and the scheme itself '*Chitty*' or '*Kuri*'. Evidently the scheme is a co-operative venture for getting credit through mutual help.

Logan <sup>5</sup> (1887) who was the then Collector of the Malabar district in the erstwhile Madras Presidency writes: "Another curious custom has come



down from ancient times and is still flourishing ... Anyone desirous of raising a considerable sum of money for some temporary purpose invites his friends to join him in what is called a *Kuri* or lottery... The organizer of the *Kuri* gets a certain number of his friends to subscribe a certain amount of money or of rice husked or un-husked as the case may be. The friends bring their contributions to his house where they are hospitably entertained, and by lot, the person is selected to whom similar contributions from all present including the organiser of the *Kuri*, are to be made at a certain date then and there fixed. This individual in turn hospitably entertains his friends when they come with their contributions. A third person is then selected, and the same thing comes off at his house. And so it goes on until everyone of the original members or his heir has in turn reaped the benefits of the contributions of his friends”.

Sim Cox <sup>6</sup> (1894) records: “ The Dravidian *Kuri* or lottery is said to have been handed down from very ancient times, and it is still commonly resorted to by anyone desiring to raise a sum of money for some special purpose, such as a daughter’s marriage... A feast is always given by the recipient of the lump-sum...”

The Madras Provincial Banking Enquiry Committee, <sup>7</sup> 1930 throws more light on the place of origin of Chits. The committee says, “ A very old method of raising money is to be found chiefly in the south and southwest districts and to a large extent throughout the Presidency in the innumerable Chits or Chit Funds or, as they are known in Malabar, *Kuries*. They are very numerous in Travancore State and in the adjoining districts of Malabar and Tinnevely. There are many in Coimbatore and South Kanara though they are not so universal as in Malabar and there are numbers in all Tamil districts but the farther one goes from Travancore the fewer they become. These are comparatively few in the *Telgu* districts”.

According to the Report of the Kuri Committee <sup>8</sup> appointed by the erstwhile Government of Cochin in 1939, “the institution of *Kuries* became very popular and took deep root in the state”, i.e. the erstwhile Princely State of Cochin, now part of the State of Kerala. It also revealed that the people

began to realise more and more the advantages derived from *Kuries* and as years rolled on, the institution of *Kuries* served as the best medium of financing the development of trade and agriculture. At a later stage when banks and other joint stock enterprises came into existence, *Kuries* began to be controlled by such institutions.

The Rural Banking Enquiry Committee, <sup>9</sup> 1950 mentions, “of the institutions engaged in promoting savings and functioning as mutual loan societies, a reference may also be made to the ‘*Nidhis*’ (Mutual Benefit Funds) and Chit Funds. On an organised scale they exist mainly in South India”.

All India Rural Credit Survey, <sup>10</sup> 1958 also notes that the institution of Chit Funds, which dates back to a period even prior to the organisation of co-operative credit societies is a noteworthy feature of the rural credit system in Kerala.

### **3.2 EVOLUTION AND SPREAD OF CHIT FUNDS**

While examining the development in the evolution of Chit Funds, one may come across different stages. In the first stage of its evolution, the *Chitty* scheme was known as ‘*Changaathi* (Friend) *Kuri*’ i.e., a *Kuri* among friends for mutual help. The essence of the scheme was the distribution of contributions made by a group of persons, over a period of time, among themselves by rotation. The foreman received no remuneration and acted as a passive honorary president <sup>11</sup>.

The second stage in the evolution of Chit Funds was characterised by the emergence of an active organiser, replacing the previous honorary foreman. The aim of the new foreman was to raise resources for some temporary purpose. The starting of ‘*Money Chitties*’ together with the introduction of auction principle brought about far reaching impact on Chit business in the country. As Nayar, CPS <sup>12</sup> (1973) reports, the pattern of subscribers also underwent changes. Apart from agriculturists, traders and merchants, salary earners also became subscribers to the Chit business. This

change in the occupational pattern of the clientele was a major turning point in the evolution of Chits.

The third stage of development in the evolution of Chit Funds started with the entry of a new class of institutional foremen in the form of partnership firm, private limited company, co-operative society and joint stock bank in which large numbers of members were enrolled who gradually displaced the individual foreman. The Travancore-Cochin Banking Enquiry Commission <sup>13</sup> (1956) stated: "Most of the banks in the erstwhile Travancore-Cochin State has grown out of the womb of Chit and *Kuri* funds that have been operating in the State from ancient times". Even the banks, which were not grown out of Chits in the State, started conducting Chits with the object of attracting deposits. Along with the normal banking activities, *Kuries* or *Chitties* formed a substantial portion of their total business. It would be evident from the facts that as many as 166 banks were conducting *Kuries* during the thirties.

With the advent of institutional foremen, Chit became a modern business requiring entrepreneurial skill, financial investment and at the same time yielding reasonable return to the promoters. The Chit developed into an institution for savings and supply of credit. With this, Chit started spreading to urban and metropolitan centres and the Chit capital became sizable enough to suit businessmen or traders <sup>14</sup>. So also many ills of unbridled expansion of Chits started and caused misery and loss to the subscribers.

The fourth stage of development in the evolution of Chit Funds was the entry of Government to the field. While presenting the position of *Chitty* or *Kuri* business in the State, Sreedhara Menon <sup>15</sup> (1967) traced out the need for bringing *Chitties* and *Kuries* under State control. Consequently Kerala State Financial Enterprises Ltd. (KSFE) was established in 1969 as a fully Government owned Company to provide an alternative to the private Chit promoters so as to liberate the common man from the clutches of the unscrupulous promoters in the field of Chit Fund business.

Another important development of Chit Fund Business in Kerala from the late seventies was the flight of Chit foremen to other states for starting Chits, though they virtually operated in Kerala. The flight of the foremen was due to the existence of certain rigid provisions of the Kerala *Chitties Act, 1975* prevailing in the State. This resulted in a sharp decline in the registration of Private Chits in the State causing loss of revenue to the Government and also instances of malpractices by the foremen.

A significant development in the evolution of Chit Finance in Kerala in the mid 1990's was the introduction of 'Chit-like' schemes as Monthly Deposit Scheme (MDS), Monthly/Mutual Benefit Scheme (MBS), Monthly Benefit Deposit Schemes (MBDS), etc. by the Co-operative Societies, Primary Co-operative Banks and by the Urban Co-operative Banks. The above schemes function exactly like the Chit scheme. The only difference is in the usage of new terms instead of *Chitty*. The main advantage of such schemes over the Chit scheme is the minimisation of the formalities and procedures. They can be conducted by any society or bank after obtaining sanction for their bye-laws from the Joint Registrar of Co-operatives of the concerned circle. The number and volume of these 'Chit like schemes' are large and are significant in mobilising savings even from the low income groups of rural and urban localities. But no authentic information about them is available with the Government of Kerala since they are outside the scope of the Kerala *Chitties Act, 1975*.

The starting of Corporate Chits, which serve the needs of the corporate sector, can be viewed as another important stage of development in the evolution of Chit Funds. The Model Chit Corporation Ltd., Hyderabad floated in August 1995 introduced for the first time in the country, the Rs.1 Crore Chit, which was named the 'Century Line Series' (Krishnamurthy <sup>16</sup> 1997). In the changing scenario and in the context of increasing need for funds, Chit Funds play a vital role in meeting the requirements of not only individuals, but also serve as a useful source of finance to the corporate sector.

As cumulative effects of these factors, the Chit organisation has spread by leaps and bounds not only in Kerala and southern states but also to other regions of the country <sup>17</sup>. The Chit Fund business in India is estimated at Rs.20,000 Crore, taking only the organised sector operating under the Chit Funds Act, 1982. The unorganised sector is guesstimated to be about 4 times the size of organised sector. Tamil Nadu alone has about 6,000 registered Chit operators, and Chits have been popular in the other two southern states - Andhra Pradesh and Karnataka too. However, it has not been so in the north, except in Delhi, Gujarat, Maharashtra and Haryana (Balasubramanian <sup>18</sup> 2002). In Kerala, the number of working Chits in the formal sector alone is estimated as 20,445 with an approximate annual turnover of Rs. 1,743 Crore at the end of the year 2000-01 <sup>19</sup>. But if one consider the volume of Chit business operated by foremen with bases outside Kerala, those in the informal sector, and those conducted by the Co-operatives as MDS or MBS, the actual volume of Chit business would be many times greater the official data given above.

### **3.3 DIFFERENT METHODS OF *CHITTIES* OR *KURIES***

As already mentioned, the Chit Funds system as it originated was 'Grain Chit' or '*Dhaanya* Chit' where the Chit capital was a certain measure of grain grown locally. The subscribers in such cases personally took the periodical contributions to the house of the foreman who acted as a passive honorary president and the prize was disbursed immediately after the drawing of lot. The 'Grain Chit' or '*Dhaanya* Chit' became popular among women. Even without the knowledge of the men at home, many a housewife joined the Chits and paid the contributions by sparing a fistful of rice from every day meal. When the prize accrued, the prize-winner mostly sold the quantity of rice either to the foreman himself or to others and got money instead and finally invested it in gold ornaments or household utensils. Later on, a new class of women promoters emerged and started weekly and monthly Chits, extending for a short period, and introduced them to the neighbours of their own rank (Nayar <sup>20</sup> 1973).

### **3.3.1 Lot Chits or Simple Chits**

Under Lot Chits or Simple Chits, a member is selected from among the eligible members on the basis of lot. In this method, chance plays a crucial role and a member who has interest in taking the prize amount at a particular instalment may not get it. The member, who gets the prize amount in the initial period of Chit, can earn interest on it for the remaining period of Chit compared to one who gets it last. Because of these drawbacks, lot Chits became unpopular and gave way to auction Chits or auction-cum-lot Chits.

As Chits proved profitable, more and more promoters came forward and the number of Chits multiplied, especially among church congregations <sup>21</sup>. *Kuri* was introduced among Christians, and presumably, it might have spread from Cranganore to other Christian centres. In the central Travancore and Trichur area, the Chit was initiated originally to help members of the church who were in financial distress. Thus, in the villages around Trichur, several churches started *Kuries*. It is the popularity as well as the experience with *PalliKuries* (Church- managed *Kuries*) that inspired independent ventures in Chits.

### **3.3.2 Auction Chits or Business Chits**

Under Auction Chits or Business Chits, the capital, less of foreman's commission, is kept open for bidding. The members present or by proxy, offer discount on the amount and the one who offers the highest discount (or accept the lowest prize amount) is declared the prize-winner. In this auction system, it becomes possible for needy members to bid for an amount depending upon the urgency of their need. Auction Chits are highly beneficial to businessmen who need credit. By joining an Auction Chit of their choice and paying subscription for one or two months, they can bid for a fairly big sum. The difference between Chit capital and the bid amount is distributed as dividend to the members – both prized and non-prized. Under conditions of ceiling on bid, when more than one member offers the ceiling rate, there would be a draw among such members to decide the prize-winner. The Auction Chits are also known as Business Chits.

### 3.3.3 Tender Chits

Under this method, the members write their name and the discount amount in the prescribed tender form, seal it and hand it over to foreman on the day of tender. The tenders are opened in the presence of members and the highest offer of discount is accepted.

### 3.3.4 Auction-cum- Lot Chits

Many Chit Funds follow the method of mixing the advantages of Lot Chits and Auction Chits in the same Chit. Such mixed varieties are of two types. It may be a scheme where auction is held in the first instalment and draw of lots held in the second instalment and again auction in the third and draw in the fourth and so on. In the second type, there shall be draw and auction at every instalment of the Chit, as one ticket (one fraction of the capital) draws and the remaining tickets auction. The advantage in mixed Chit is that if a member is unsuccessful at the draw, he can participate in the bidding and take the prize amount. There are provisions for fractional membership. Each member is given a number for inclusion in the draw and auction. If a number representing fractional membership wins or succeeds at bidding, the prize amount is distributed *pro-rata*.

The Kerala *Chitties* Act, 1975 and the Chit Funds Act, 1982 permit a method of 'draw' i.e., the mode of ascertaining the prize-winner at any instalment of the Chit by lot or auction or by tender or in such other manners as may be provided in the '*Variola*' (Bye-laws). When the prize-winner is to be determined by auction, and more than one person bids for the same amount, the prize-winner shall be determined by lot among them. According to the Kerala *Chitties* Act, 1975 the amount of discount <sup>22</sup> in a Chit shall not exceed 30 per cent of the Chit amount. In Kerala, Chits run by the Kerala State Financial Enterprises Ltd. (KSFE) and other Chit institutions provide proxy facilities.

Chit foremen in the informal sector follow different methods for selecting the prize-winner in accordance with their business tactics and

imagination. Besides monthly Chits, there are daily Chits, weekly Chits, bi-monthly Chits and 'Pooval Kuries' <sup>23</sup> (Quarterly Chits) operating in Kerala, mobilising substantial volumes of savings from different categories of people. Even though Chit business in the informal sector is flourishing very well in Kerala, no reliable data is available on the actual number of Chits and the volume of business <sup>24</sup>.

### **3.4 UNIQUE FEATURES OF CHIT FUNDS**

Chit Funds, as indigenous financial institutions, have an irreplaceable position even with the advancement of modern financial institutions like Commercial Banks, Mutual Funds, Leasing, Hire Purchase, etc. A Chit Fund is a financial institution based on mutual trust and confidence. It is primarily a 'Sahayanidhi' in which people join either to obtain easy credit or to find an avenue for their savings. The membership is purely voluntary, limited by number for a fixed period and with limited liability. Unlike other financial institutions, Chit Funds are operated without any external resources. They operate with the monthly or periodical subscription of the members. The basic principle underlying a Chit Fund is accumulating savings and channelising them for various purposes (Radhakrishnan <sup>25</sup> 1975).

A unique feature of savings in a Chit Fund is that there is a sort of compulsion in effecting savings. While savings in banks and other financial institutions are made out of residual income, the subscriptions to Chit Funds are unavoidable expenditure of the subscribers. Further, Chit Funds can do much in mobilising and channelising savings not only by the rich but also by those who lead a hand to mouth existence. Once the subscriber joins the Chit scheme, the periodic contributions are compulsory, as the defaulters will be deprived of the benefits of the Chit scheme like non-eligibility for bidding and loss of dividends. This self-imposed compulsion and discipline on the part of the subscribers to make regular savings cannot be ignored, especially in a country like India where the ability as well as the willingness of the people to save is low.



One of the important attractions of savings through a Chit Fund is the facility of immediate realisation of future savings in a lump sum, which induces many people to subscribe to Chit Funds. Thus, Chit Fund is more than a savings bank to the savers and more than a lender to the borrowers (Radhakrishnan <sup>26</sup> 1975). While depositors in other financial institutions get back only their total savings at any time, the savers in a Chit Fund can take the future savings well in advance.

Savers benefit most from Chits. They get attractive deductions from the actual amount payable as a result of the equitable distribution of the auction discount among the subscribers. They can also try their luck in auction along with others. If the Chit is prized in the first few instalments, they can transfer it and reap good margin as profit or deposit it in the bank or in the company itself. The interest there-from will be nearly sufficient to pay the future instalments.

Chit offers many facilities to the borrowers. The prize amount is equivalent to an unconditional loan and can be used for any purpose including repayment of old debts, construction of houses, education of children, marriage, etc. The prize amount can be repaid in easy instalments. Sometimes a good portion of the future subscription instalment can be generated out of the investment of the loan amount. No indignity or humiliation is involved in the borrowing, since it is like an advance, which the subscriber will save over the life of the Chit <sup>27</sup>. Right for dividends even after taking the prize amount and automatic clearing of loans at the end of the Chit period are the other benefits enjoyed by the borrowers.

#### **3.4.1 Self Determined Cost**

Individual subscribers themselves decide the cost of borrowing in the Chit scheme. The ceiling of 30 per cent in auction is the maximum limit at which a subscriber could borrow. In fact what distinguishes a Chit Fund from

other financial institutions is that, it is the only financial institution, which gives freedom to a borrower to fix the cost or rate of interest for credit. The cost of funds is the difference between total subscriptions paid by a subscriber, net of dividend and prize amount received. Since net subscription is the same for all the subscribers of a group, the cost of funds differs from member to member depending on the prize amount and the time of receipt. This is a unique feature of the scheme, where all the members pay different interest rates for borrowings, depending on the instalment of bids and so receive different returns for savings. The borrowers and lenders meet to fix the rate of interest and since there is more than one borrower competing for the same amount, a competitive rate of interest is arrived at. Of course, this competition is limited to the members and with a maximum ceiling.

#### **3.4.2. Familiarity**

People in the middle and low-income groups in rural and urban areas of South India are somewhat familiar with the system and operation of Chit Funds, even-though many may not know much about the way the banks and other financial institutions function. It connects the borrowing class directly with the lending class enabling them to save themselves from the exploitative nature of moneylenders.

Besides, there are several thousands of unregistered Chit groups with different durations and Chit amounts among friends, colleagues in offices, residential colonies, self employed persons, traders, etc. These 'Community Chits' <sup>28</sup> have less formality and so have spread to other parts of India (Radhakrishnan 1997).

#### **3.4.3 Competitiveness and Diversity**

The system of Chit Funds offers various schemes to suit the needs of different income groups. In Kerala, one can find Chits of various types and denominations both in the rural and urban areas. Different techniques have

been used by the Chit foremen to attract Chit subscribers by the method of payment of prize money, discount allowed, gifts offered, etc.

#### **3.4.4 Transparency and Accessibility**

The pivot of the Chit Fund system is the auction to decide the prized subscribers. Auction is conducted in the presence of the members or their proxy, by open bidding. This provides an opportunity to each member to bid for the Chit amount depending on the urgency of his needs within the prescribed ceiling. Many join Chits because of the facility it provides to borrow for their varied needs, without any queries on the end use of funds. In fact this flexibility and simplicity are typical of all types of ROSCAs <sup>29</sup>.

#### **3.4.5 Similarity with Recurring Deposits**

The monthly Chit subscription is in the nature of recurring deposits of banks or post offices, though the only similarity is the recurring nature. In a Chit Fund, the monthly instalment may not be uniform as in the bank. The monthly instalments vary, because subscribers are required to pay the amount net of dividend or discount that varies.

#### **3.4.6 Chit Funds And The Principle of Option**

Chit is an option instrument, which vests in the subscriber the right to borrow against future Chit instalments to be paid by him. The option contract gives the Chit holder the right to bid or to give up. He can exercise either put-option or call-option at his will. Put-option is exercised when the Chit holder sells his right to auction the Chit amount at a discount to other subscribers. The exercise of call-option enables the Chit holder to take the prize amount at a discount, which he has to pay back through future instalments. It is borrowed money on the unpaid value of the Chit. It has the characters of debt, on which the interest has already been paid in advance in the form of the discount

allowed. Chits are convertible instruments with an option for a subscriber to convert his savings instrument to a debt instrument (Varma <sup>30</sup> 1997).

The interest rate (discount) would differ from one Chit holder to another depending upon the intensity of demand for prize money. A Chit holder in dire need of money would take away the Chit at a heavy discount, subject to the ceiling fixed by the Acts, which is shared equally by all the Chit holders as dividend. A Chit holder can exercise option by auction or lot or both.

To summarise, Chits or Kuries have the following distinctive features like the element of mutual help, compulsion in effecting savings, facilitate future savings in a lump sum, option to fix the cost or rate of interest on credit, right to share discount, familiarity, simplicity, diversity and convertibility with an option for a subscriber to convert his savings instrument to a debt instrument.

### **3.5 ILLUSTRATION OF AN AUCTION CUM LOT CHIT**

Table 3.1 shows the actual figures of a terminated Chit conducted by KSFE. In this illustration, there are 50 members including the foreman who agree to pay Rs.1000 each per month for 50 instalments. That means the monthly Chit amount (*sala*) will be Rs.50,000. The foreman has been entitled to 5 per cent of the Chit amount (Rs.2,500) as fixed commission at every instalment. He is also entitled to the Chit amount, (Rs.50,000) at the very first instalment, without auction and discount.

**Table 3.1****Illustration of an Auction cum Lot Chit***Sala* = Rs.50,000 (1000 x 50)

Duration: 50 Months

Instal. No.	No. of Months remaining	Prize Amount	Subscription less discount	Total Discount Rs.6186	Loss on bidding
1	2	3	4	5	6
1	49	50000	1000	-	-
2	48	35000	750	250	15000
3	47	35000	750	250	15000
4	46	35000	750	250	15000
5	45	35000	750	250	15000
6	44	35000	750	250	15000
7	43	35000	750	250	15000
8	42	35000	750	250	15000
9	41	35000	750	250	15000
10	40	35000	750	250	15000
11	39	35000	750	250	15000
12	38	35000	750	250	15000
13	37	35000	750	250	15000
14	36	35000	750	250	15000
15	35	35000	750	250	15000
16	34	35000	750	250	15000
17	33	35000	750	250	15000
18	32	35000	750	250	15000
19	31	35000	750	250	15000
20	30	35000	750	250	15000
21	29	35000	750	250	15000
22	28	35000	750	250	15000
23	27	39850	847	153	10150
24	26	41600	882	118	8400
25	25	39500	840	160	10500
26	24	42000	890	110	8000
27	23	41500	880	120	8500
28	22	45500	960	40	4500
29	21	45900	968	32	4100
30	20	45850	967	33	4150
31	19	43900	928	72	6100

Instal. No.	No. of Months remaining	Prize Amount	Subscription less discount	Total Discount Rs.6186	Loss on bidding
1	2	3	4	5	6
32	18	46000	970	30	4000
33	17	46000	970	30	4000
34	16	46200	974	24	3800
35	15	46800	986	14	3200
36	14	47500	1000	-	2500
37	13	47500	1000	-	2500
38	12	47500	1000	-	2500
39	11	47500	1000	-	2500
40	10	47500	1000	-	2500
41	9	47500	1000	-	2500
42	8	47500	1000	-	2500
43	7	47500	1000	-	2500
44	6	47500	1000	-	2500
45	5	47500	1000	-	2500
46	4	47500	1000	-	2500
47	3	47500	1000	-	2500
48	2	47500	1000	-	2500
49	1	47500	1000	-	2500
50	0	47500	1000	-	2500
				<b>6186</b>	

Source: Terminated Chit conducted by K.S.F.E. Chitty No. 5/97,  
Date of commencement 22-3 1997, Date of Termination 19-4-2001.

The maximum discount permissible has been fixed at 30 per cent, which includes 5 per cent as foreman's commission. If there are more bidders at the maximum discount rate, the prize-winner will be decided by draw of lot. If not, the prize-winner will be decided by auction. The discount will be distributed equally among all members as dividend. So, the members need to remit the monthly instalment net of eligible dividend.

### 3.6 GROWTH TRENDS OF CHIT BUSINESS

The Chit Fund business has achieved significant growth in terms of its volume over the years. This section presents the growth of Chit business in

the formal (Registered) sector of the State, which includes data on the growth of Chit business, both before and after the formation of Kerala State. It also analyses the decennial growth in the number of Chits registered and their capital (*sala*) for the period 1960-2001. The trend analysis of the number of Chits registered, their capital as well as the share of various Chit institutions in the total Chit business is also presented.

### **3.6.1 Growth of Chit Funds before the Formation of Kerala State**

The Travancore Banking Enquiry Committee,<sup>31</sup> 1930 which made one of the earliest attempts to furnish consolidated data regarding the number and capital of Chits working in Travancore, gave the total number of Chits registered in the state during 1918-1922 as 2,982. The total capital of these Chits amounted to Rs.75 Lakhs. At the end of 1928-29, the committee found that there were 9,931 live Chits involving a total capital of Rs.236 Lakhs, the average number of Chits registered annually in the 1920s being 1,300. Besides the registered Chits, there were innumerable small Chits with capital below Rs.100, which did not require registration. There were also Chits, which distributed vessels, ornaments, furniture, etc. as prize, in lieu of money.

The Madras Provincial Banking Enquiry Committee Report stated that, at the time of enquiry (1929-30) there were 387 Chits in the five districts of Pollachi, Dharmapuram, Coimbatore, Gobichettipalayam and Thirupur. But the district of Thinneveli, situated very close to the state of Travancore, surpassed all the other districts in the Presidency with an impressive number of 4,159 Chits. The report however did not include the number of small Chits that flourished among the poor people.

The Chit Fund Enquiry conducted in connection with the All India Rural Credit Survey (1958) showed the number and turnover of Chits registered in the erstwhile State of Travancore-Cochin during 1930-31 to 1949-50. Table 3.2 given below shows the details.

**Table 3.2****Growth of Chits in the State of Travancore –Cochin 1930-31 to 1949-50  
(Rs. Lakhs)**

Year	Number of Working Chitties		Total capital of the Chitties Functioning	*Approximate Annual Turnover of Working Chits	
	No.	Growth Rate		Capital	Growth Rate
1930-31	10289	-	258	3096	-
1931-32	9254	-10.06	262	3144	1.55
1932-33	8418	-9.03	265	3180	1.15
1933-34	7667	-8.92	146	1752	-44.91
1934-35	6944	-9.43	125	1500	-14.38
1935-36	6228	-10.31	86	1032	-31.20
1936-37	5684	-8.73	82	984	-4.65
1937-38	5447	-4.17	78.6	943.2	-4.15
1938-39	1813	-66.72	56.25	675	-28.44
1939-40	1449	-20.08	28.43	341.16	-49.46
1940-41	1122	-22.57	22.16	265.92	-22.05
1941-42	1048	-6.59	25.19	302.28	13.67
1942-43	1261	20.32	20.3	243.6	-19.41
1943-44	1708	35.45	27.71	332.52	36.50
1944-45	2379	39.29	38.95	467.4	40.56
1945-46	2775	16.65	47.25	567	21.31
1946-47	NA	NA	82.53	990.36	74.67
1947-48	NA	NA	86.33	1035.96	4.60
1948-49	3001	NA	64.44	773.28	-25.36
1949-50	2505	-16.53	NA	NA	NA

\* Approximate annual turnover equals total capital of working Chits at the end of the year multiplied by 12.

Source: All India Rural Credit Survey Report, 1958, p.118.

Table 3.2 shows that the number of Chitties functioning and its turnover declined during the period 1930-31 to 1941-42. The survey report showed that the reasons for the decline were the general economic recession that prevailed in the State during that period and the effects of the World War II. The entry of other financial institutions such as the co-operative banks, the commercial banks, the post offices with their savings bank and the change in the occupational pattern of the people were the other reasons for the decline



noticed during the period <sup>32</sup>. But after the war, the growth rate of the number of Chits functioning and its turnover showed an upward trend from 1942-43. All India Rural Credit Survey Report, 1958 showed that by 1948-49, the number of registered Chits functioning in the Travancore-Cochin State rose to 3001 and for the next 3 years the yearly registrations were of the order of 528, 1,465 and 1,742 respectively.

Thus, it is evident that a well-established Chit Funds system existed in the State of Travancore-Cochin at the time of formation of the State of Kerala in 1956.

### **3.6.2 Growth of Chit Funds after the Formation of Kerala State**

After the formation of the Kerala state, the number of registered Chits showed more or less a steady growth. The number of working Chits increased from 3,888 at the end of the year 1957-58 to 4,101 in 1958-59. However, the number of working Chits showed a decline to 1810 at the end of the year 1959-60. The approximate annual turnover of working Chits in the State for the period 1957-58, 1958-59, 1959-60 were Rs.2,056 Lakhs, Rs.1,524 Lakhs, and Rs.1,512 Lakhs respectively <sup>33</sup>.

The growth of Chit business after 1960 has been analysed decade-wise from 1960-61 to 1999-2000. Decennial growth rates of number of Chits registered and their annual turnover has also been presented in Table 3.3 given below.

**Table 3.3**

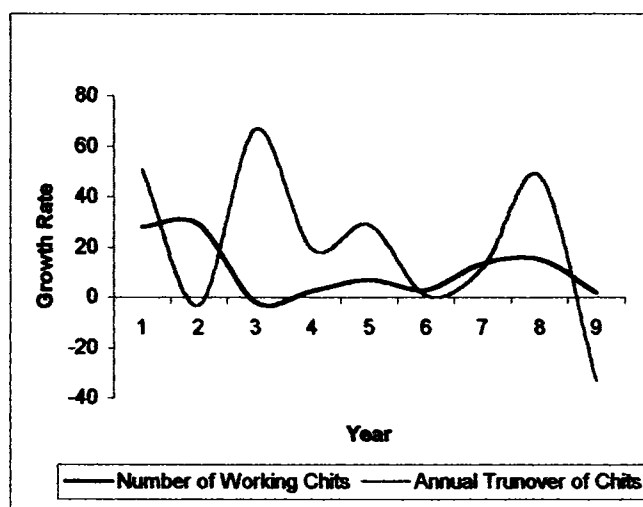
**Growth of Chits in Kerala 1960-61 – 1969-70 (Rs. Lakhs)**

Year	Number of working Chits at the end of the year		Total capital of working Chits	Approximate annual Turnover of working Chits	
	No.	Growth Rate		Capital	Growth Rate
1960-61	2523	-	126	1512	-
1961-62	3235	28.22	190	2280	50.79
1962-63	4182	29.27	184	2208	-3.16
1963-64	4098	-2.01	307	3684	66.85
1964-65	4203	2.56	366	4392	19.22
1965-66	4498	7.02	472	5664	28.96
1966-67	4632	2.98	475	5700	0.64
1967-68	5257	13.49	531	6372	11.79
1968-69	6062	15.31	788	9456	48.40
1969-70	6181	1.96	528	6336	-32.99
Average Annual Growth Rate		<b>10.98</b>	-	-	<b>21.17</b>

Source: Nayar, C. P. S. Chit Finance, p. 165.

Table 3.3 gives the growth of Chits during the period 1960-61 to 1969-70. During the period, the Average Annual Growth Rates of the number of Chits registered was 10.98 per cent and that of annual turnover was higher at 21.17 per cent. However Figure 3.1 depicts that the growth rate of the number of Chits registered and the approximate annual turnover of Chits has shown a fluctuating trend from 1960-61 to 1969-70.

**Figure 3.1**  
**Growth Rate for 1960-61 to 1969-70**



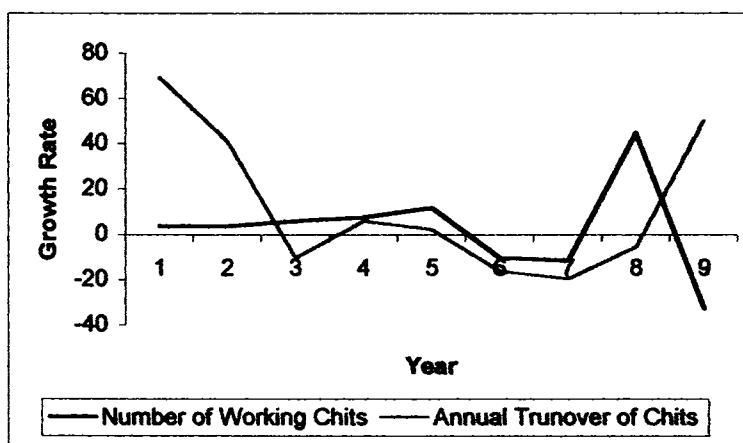
The growth of Chit Fund business in the state from 1970-71 to 1979-80 is presented in Table 3.4 and Figure 3.2. They show an increasing trend in the growth rate of the number of Chits in the first part of the period. But from 1975 onwards a declining trend is seen, except for the year 1978-79. The growth rate of the annual turnover for the above period shows a decreasing trend with minor fluctuations. This decline could be attributed to the effect of the implementation of the Kerala *Chitties Act*, 1975.

**Table 3.4**  
**Growth of Chits in Kerala 1970-71 to 1979-80 (Rs. Lakhs)**

Year	Working Chits at the end of the Year		Total capital	Approximate annual turnover	
	No	Growth rate		Capital	Growth rate
1970-71	6371		653	7836	
1971-72	6606	3.69	1106	13272	69.37
1972-73	6841	3.56	1559	18708	40.96
1973-74	7235	5.76	1398	16776	-10.33
1974-75	7784	7.59	1479	17748	5.79
1975-76	8706	11.84	1509	18117	2.08
1976-77	7818	-10.20	1265	15174	-16.24
1977-78	6930	-11.36	1020	12240	-19.34
1978-79	10032	44.76	967	11604	-5.20
1979-80	6747	-32.75	1453	17436	50.26
Annual Average		2.54			13.04

Source: Administration Report, Registration Department, Government of Kerala, Trivandrum.

**Figure 3.2**  
**Growth Rate for 1970-71 to 1979-80**



During the period 1980-81 to 1989-90, there was an average annual growth rate of 9.89 per cent in the number of Chitties and 11 per cent growth in annual turnover. Table 3.5 gives the details. Figure 3.3 shows that though both the variables reflect a fluctuating trend for the period, there was a high degree of correlation between them.

**Table 3.5**

**Growth of Chits in Kerala from 1980-81 to 1989-90 (Rs. Lakhs)**

Year	Working Chits at the end of the year		Total capital of working Chits	Approximate annual turnover	
	No	Growth rate		Capital	Growth rate
1980-81	7081	9.89	1782	21384	
1981-82	7781	14.09	926	11112	-48.04
1982-83	8877	7.90	1161	13932	25.38
1983-84	9578	12.83	1742	20904	50.04
1984-85	10807	18.03	1638	19656	-5.97
1985-86	12756	15.28	2253	27030	37.52
1986-87	14705	5.69	2867	34404	27.28
1987-88	15541	1.28	3065	36780	6.91
1988-89	15740	-2.94	3234	38808	5.51
1989-90	15278	9.12	3247	38964	0.40
<b>Annual Average</b>		<b>9.89</b>			<b>11.00</b>

Source: Administration Report, Registration Dept. Government of Kerala

**Figure 3.3**

**Growth Rate for 1980-81 to 1989-90**

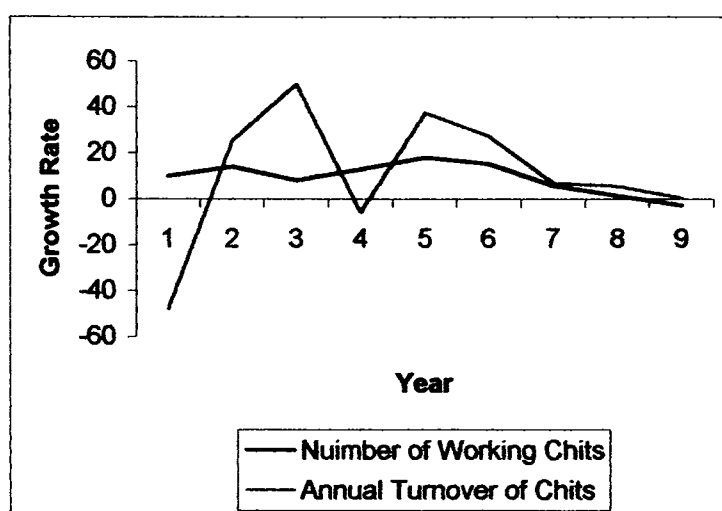


Table 3.6 and Figure 3.4 show fluctuations in the growth rates of the number of Chits registered and in the annual turnover of working Chits in the State from 1990-91 to 1999-2000. There was a significant decline in the rate of growth in number of Chits, at only 4.28 per cent, though the annual turnover showed an impressive 16.63 per cent growth.

**Table 3.6**

**Growth of Chits in Kerala From 1990-91 to 1999-00 (Rs. Lakhs)**

Year	Working Chits at the end of the year		Total capital of working Chits	Approximate annual Turnover	
	No	Growth rate		Capital	Growth rate
1990-91	14816		3260	39120	
1991-92	14355	-3.11	3272	39264	0.37
1992-93	18583	29.45	4328	51936	32.27
1993-94	20660	11.18	4276	51312	-1.20
1994-95	22489	8.85	5012	60144	17.21
1995-96	21136	-6.02	6377	76524	27.23
1996-97	20859	-1.31	5783	69396	-9.31
1997-98	21744	4.24	7287	87444	26.01
1998-99	22770	4.72	10706	128472	46.92
1999-00	20617	-9.46	11799	141588	10.21
<b>Annual Average</b>		<b>4.28</b>			<b>16.63</b>

Source: Registration Dept. I.G of Registration, Trivandrum.

**Figure 3.4**

**Growth Rate for 1990-91 to 1999-2000**

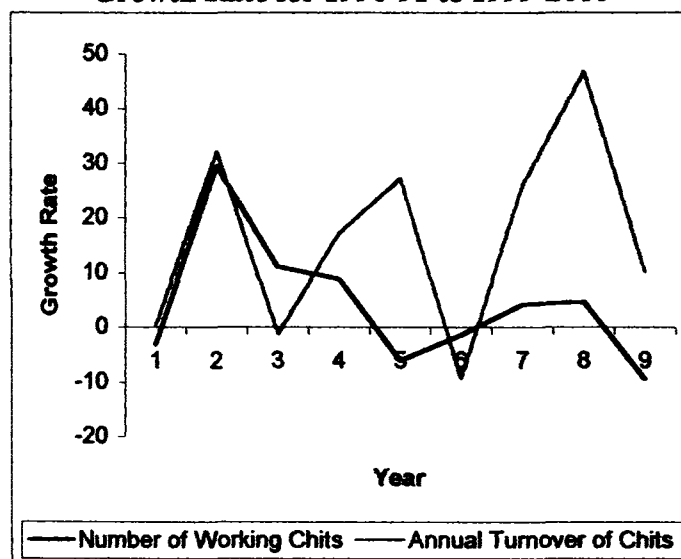


Table 3.7 in summary reveals that the decade (1960-70) witnessed the highest growth rates in the number of Chits registered as well as in annual turnover, when compared with the succeeding decades.

**Table 3.7**

**Decennial Growth Rates of Number and Annual Turnover of Chits**

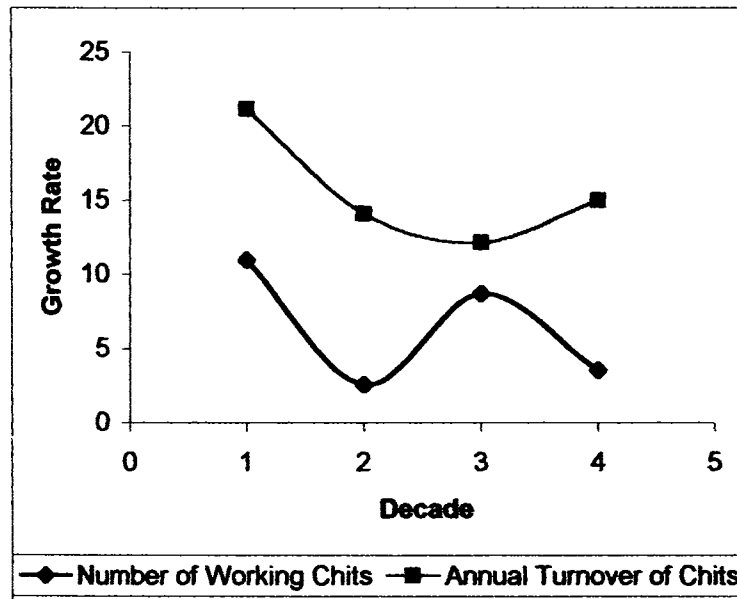
No.	Decade	Growth Rate of No of Registered Chits	Growth Rate of Annual Turnover
1	1960-70	10.98	21.17
2	1970-80	2.60	14.10
3	1980-90	8.70	12.17
4	1990-2000	3.55	15.01
	Pooled Data	6.42	15.49

Computed Data.

The decline in growth rates of both the variables for the succeeding decades has been mainly due to the rigidity of the Kerala *Chitties* Act and the resultant outflow of foremen to other states for conducting Chits. The starting of 'Chit like schemes' by the Co-operatives by avoiding official registration has been another reason for the decline in growth rates. The actual growth rate would have been much higher if one takes into account the volume of Chits in the informal sector.

According to the All Kerala *Chitty* Foremen Association, <sup>34</sup> as at the beginning of year 2002, there are about 10,000 Chit companies operating in the State with bases outside Kerala especially from Faridabad and Jammu. The employment opportunities generated by these Companies is estimated to be over 30,000. The duration of Chits ranges from 5 to 16 years. In Trichur district alone, nearly 3,000 such Chit companies exist. Decennial growth rates of the number and annual turnover of Chits has been shown in Figure.3.5.

**Figure 3.5**  
**Decennial Growth Rates of Number and Turnover of Chits**

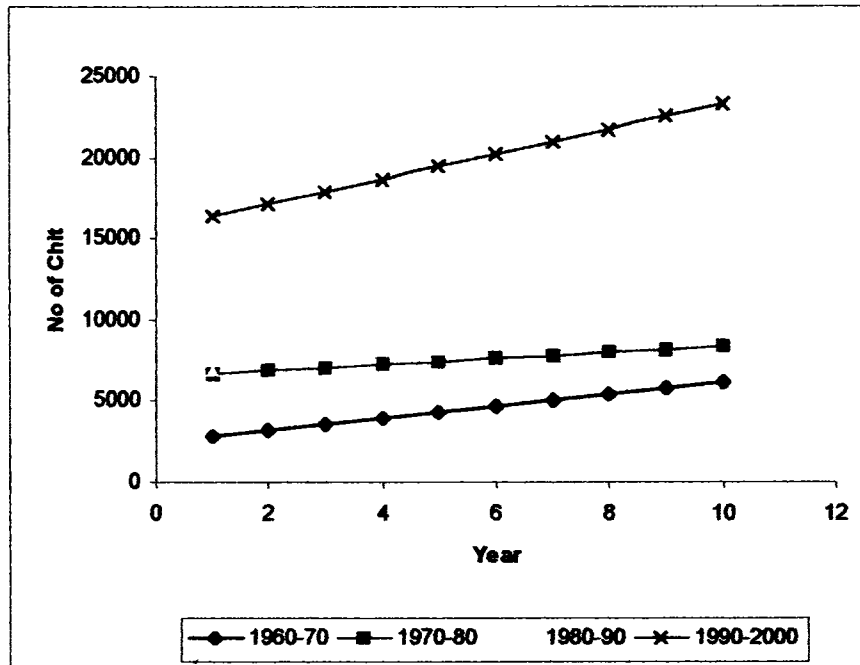


### 3.6.3 Trend Analysis of the Growth of Chits

The trend analysis of the number of Chits registered and annual turnover shows significant increasing trend for the decades 1960-70 and 1980-90. But the decade 1970-80 shows only slight increasing trend for the above two variables. A distinctly increasing or positive trend has been noticed for Chit turnover for the decade 1990-2000, whereas only a slightly positive or increasing trend was seen in the case of number of Chits as shown in Figures 3.6 and 3.7.

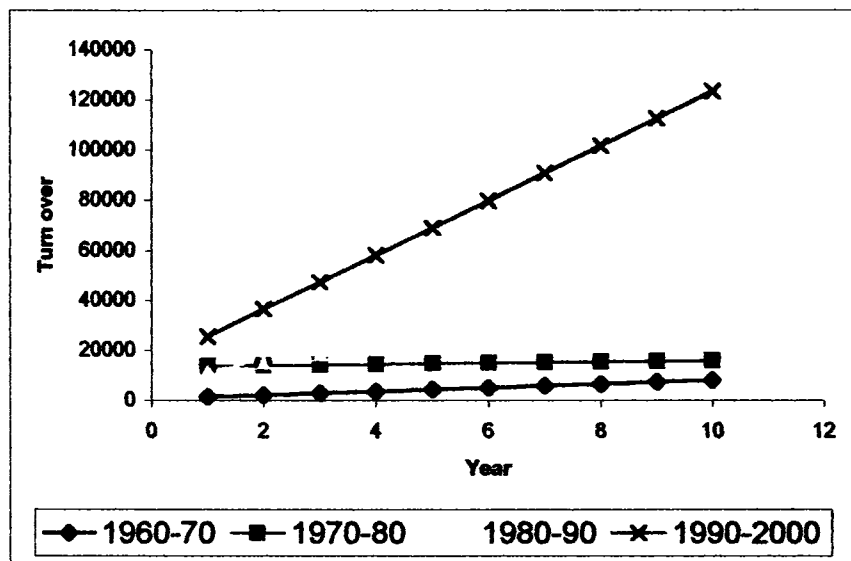
**Figures 3.6**

**Trend Analysis of the Number of Chits Registered**



**Figure 3.7**

**Trend Analysis of Chit Turnover**



The growth rate of the number of Chits registered has been less than the growth rate of the turnover of the Chits from 1960-70 to 1990-2000. But the impressive growth rate of annual turnover during 1990-2000 when compared to the growth rate of number of Chits registered is the effect of the



large volume of Chit business started by KSFE from 1990 onwards with its special privilege to start big *sala Chitties*.

### 3.7 INSTITUTION-WISE ANALYSIS OF CHIT BUSINESS

Though the number of Chits registered by Co-operatives is the largest (44.2 per cent), the share of KSFE in terms of the total volume of Chit business in the State is 77 per cent and that of the Co-operatives and Private Chit funds are 17 per cent and 6 per cent respectively.

**Table 3.8**  
**Number and *Sala* of Registered Chits**  
**as on March 2000 (Rs. Lakhs) Institution-wise**

Name of the Institution	Number of Chits / <i>Kuries</i>	Share of each to total Percentage	Capital <i>sala</i>	Share of each to total Percentage
1. KSFE	7446	37.5	95249	77
2. CO- OPERATIVES	8793	44.2	21101	17
3. PRIVATE CHITS	3633	18.3	7701	6
<b>Total</b>	<b>19872</b>	<b>100</b>	<b>124051</b>	<b>100</b>

Source: - Government of Kerala, Legislative Assembly Interpretation Registration Dept. I.G of Registration, Trivandrum.

The share of Co-operatives and private Chits appear to be insignificant mainly due to the fact that a considerable volume of business of the above two groups is conducted without formal registration. While Co-operatives are conducting Chits by obtaining permission from the Joint Registrar of Co-operatives with less formality, private Chit Funds operate their Chit business in Kerala with bases outside the State to escape from the rigid rules of the Kerala *Chitties* Act, and so there is no authentic data on these.

### 3.8 REGION-WISE ANALYSIS OF CHIT BUSINESS.

The State of Kerala comprises of three regions namely southern, central and northern on the basis of the erstwhile princely States of Travancore, Cochin and Malabar. Tables 3.9 and 3.10 reveal that Southern Kerala forms the beehive of Chit activity in Kerala, with the largest number of Chits registered as well as the highest volume of Chits.

**Table 3.9**  
**Region wise Analysis of the Growth of Chits in Kerala from 1981-82 to 1999-00 (Final)**

Year	S.K			C.K			N.K			Total						
	No.	Sala (Lakhs)	%	No.	Sala (Lakhs)	%	No.	Sala (Lakhs)	%	No.	Sala (Lakhs)	%				
1981-82	3745	48.13	441	47.62	3146	40.43	399	43.09	890	11.44	86	9.29	7781	100	926	100
1982-83	4098	46.16	588	50.65	3736	42.09	440	37.90	1043	11.75	133	11.46	8877	100	1161	100
1983-84	4539	27.25	781	37.42	3989	23.95	800	38.33	1050	6.30	161	7.71	16658	100	2087	100
1984-85	5447	50.22	684	41.76	4272	39.38	779	47.56	1128	10.40	175	10.68	10847	100	1638	100
1985-86	5447	50.22	684	41.76	4272	39.38	779	47.56	1128	10.40	175	10.68	10847	100	1638	100
1986-87	6616	44.99	1063	37.08	6377	43.37	1080	37.67	1712	11.64	724	25.25	14705	100	2867	100
1987-88	7894	50.79	1237	40.36	5897	37.94	1216	39.67	1752	11.27	612	19.97	15543	100	3065	100
1988-89	7447	47.31	1339	41.40	6331	40.22	1251	38.68	1962	12.47	644	19.91	15740	100	3234	100
1989-90	7447	47.31	1339	41.40	6331	40.22	1251	38.68	1962	12.47	644	19.91	15740	100	3234	100
1990-91	7447	47.31	1339	41.40	6331	40.22	1251	38.68	1962	12.47	644	19.91	15740	100	3234	100
1991-92	5803	40.42	1275	38.97	6595	45.94	1519	46.42	1957	13.63	478	14.61	14355	100	3272	100
1992-93	9309	47.54	2152	49.72	7035	35.92	1664	38.45	2239	11.43	512	11.83	19583	100	4328	100
1993-94	10047	48.63	2410	56.36	7585	36.71	1080	25.26	3028	14.66	786	18.38	20660	100	4276	100
1994-95	11297	50.23	2834	56.59	7880	35.04	1204	24.04	3312	14.73	970	19.37	22489	100	5008	100
1995-96	10988	51.99	3143	49.29	7562	35.78	2435	38.18	2586	12.24	799	12.53	21136	100	6377	100
1996-97	10765	51.61	2636	45.58	7657	36.71	2381	41.17	2437	11.68	766	13.25	20859	100	5783	100
1997-98	11292	51.93	3171	43.52	7745	35.62	3081	42.28	2707	12.45	1035	14.20	21744	100	7287	100
1998-99	12398	54.45	4772	44.57	7999	35.13	3774	35.25	2373	10.42	2160	20.18	22770	100	10706	100
1999-00	10216	49.55	5807	49.22	7797	37.82	4140	35.09	2604	12.63	1852	15.70	20617	100	11799	100

Source : Computed Data from Registration Dept, I. G of Registration, Trivandrum.

**Table 3.10****Number of Chits and *Sala* in Kerala 1999-00 Region-wise Analysis**

No.	Region	Number of Chits	Percentage	Capital <i>Sala</i> (Rs. Lakhs)	Percentage
1	Southern Kerala	10216	49.55	5807	49.21
2	Central Kerala	7797	37.82	4140	35.09
3	Northern Kerala	2604	12.63	1852	15.70
	<b>Total</b>	<b>20617</b>	<b>100</b>	<b>11799</b>	<b>100</b>

Source: - Government of Kerala, Legislative Assembly Interpretation, Registration Department, I.G of Registration, Trivandrum.

The dominance of Chit business in southern Kerala can be attributed to the presence of large number of KSFE branches (42%) and also due to the strong presence of the salaried class in that region (See also Table 3.11).

**3.9 DISTRICT-WISE DATA ON CHITS**

The district-wise data on Chits show clear dominance of Trivandrum with respect to the number of Chits registered and also for Chit capital. The other districts with high volume of Chit business are Quilon, Kottayam and Ernakulam.

**Table 3.11****Number of Working Chits and Chit capital in Kerala 2000-2001**

Sl. No.	District	No. of working Chits at the end of the year	Total Capital at the end of the year (Rs. Lakhs)	Approximate annual turnover (Rs. Lakhs)
1	Trivandrum	3805	3991	47892
2	Quilon	3762	2088	25056
3	Pathanamthitta	935	982	11784
4	Aleppy	1673	955	11460
5	Kottayam	3408	1727	20724
6	Iddikki	435	110	1320
7	Ernakulam	2050	1074	12888
8	Trichur	954	942	11304
9	Palghat	583	544	6528
10	Malappuram	462	387	4644
11	Calicut	1046	803	9636
12	Cannanore	1072	588	7056
13	Waynad	163	248	2976
14	Kasaragod	97	84	1008
	<b>Total</b>	<b>20445</b>	<b>14523</b>	<b>174276</b>

Source: - Registration Department, I.G of Registration, Trivandrum.

### 3.10 CHIT FUNDS VIS-A-VIS BANK DEPOSITS

The Report of the Travancore-Cochin Banking Enquiry Commission<sup>35</sup> (1956) had pointed out the close association of Chit Funds and banks in the State from ancient times. This section presents a comparison of the annual turnover of Chits in the State vis-a- vis bank deposits.

Table 3.12 shows that Chit turnover as percentage of bank deposits, which was impressive in the early 1970's have shown a decline thereafter. The decline has been due to the massive expansion of bank branches and also because Chit turnover includes only registered Chits. However, if we exclude the NRI deposits from the total deposits of the banks, then Chit as percentage of bank deposit seems higher and this is shown in Table 3.13.

**Table 3.12**  
**Growth in Total Deposits of Banks in Kerala**  
**vis-à-vis Chit Subscription (Rs. Lakhs)**

Year	Annual Chitty Turnover (Rs. Lakhs)	Growth Rate	Total bank deposits (Rs. Lakhs)	Growth Rate	Chit as Percentage of Bank deposit
1972-73	18708		28400		65.87
1973-74	16776	-10.33	33900	19.37	49.49
1974-75	17748	5.79	40700	20.06	43.61
1975-76	18117	2.08	48500	19.16	37.35
1976-77	15174	-16.24	67000	38.14	22.65
1977-78	12240	-19.34	88900	32.69	13.77
1978-79	11604	-5.20	111800	25.76	10.38
1979-80	17436	50.26	128600	15.03	13.56
1980-81	21384	22.64	156700	21.85	13.65
1981-82	11112	-48.04	181500	15.83	6.12
1982-83	13932	25.38	214900	18.40	6.48
1983-84	20904	50.04	263100	22.43	7.95
1984-85	19656	-5.97	347900	32.23	5.65
1985-86	27030	37.52	360000	3.48	7.51
1986-87	34404	27.28	415400	15.39	8.28
1987-88	36780	6.91	481100	15.82	7.64
1988-89	38808	5.51	566700	17.79	6.85
1989-90	38964	0.40	662000	16.82	5.89
1990-91	39120	0.40	785800	18.70	4.98

Year	Annual Chitty Turnover (Rs. Lakhs)	Growth Rate	Total bank deposits (Rs. Lakhs)	Growth Rate	Chit as Percentage of Bank deposit
1991-92	39264	0.37	967100	23.07	4.06
1992-93	51936	32.27	1211200	25.24	4.29
1993-94	51312	-1.20	1494100	23.36	3.43
1994-95	60144	17.21	1745800	16.85	3.45
1995-96	76524	27.23	2017100	15.54	3.79
1996-97	69396	-9.31	2335400	15.78	2.97
1997-98	87444	26.01	2755200	17.98	3.17
1998-99	128472	46.92	3153200	14.45	4.07
1999-00	141588	10.21	3861900	22.48	3.67
Annual Average		10.33		20.14	

Source: (1) Economic Review, Various years, Government of Kerala State Planning Board, Trivandrum.

(2) Administration Report, Various Years, Registration Dept. Government of Kerala.

A comparison of the annual turnover of Chits with domestic deposits of banks <sup>36</sup> has also been attempted here. Table 3.13 below shows that the subscription of Chits in Kerala as percentage of domestic deposits of banks in the State formed only 6.69 per cent in the year 2000. The percentage would have been higher if one included the volume of Chits operating in the informal sector and also those Chits with bases outside Kerala. Table 3.13 reveals that Chit subscription, as percentage of domestic deposits of banks remains more or less stable between 5 to 7 per cent. But the average annual growth rate of Chit turnover (16.64) in comparison to the average annual growth rate of domestic deposits of banks (16.61) seems impressive.

**Table 3.13**  
**Growth in Domestic Deposits of Banks in Kerala**  
**vis-à-vis Chit Subscription (Rs. Crore)**

1	2	3	4	5	6
Year	Amount of Domestic Deposits with Banks	Growth rate in Percentage	Annual Turnover of <i>Chitties</i> in the State	Growth rate in Percentage	Chit Subscription as Percentage of Deposits of Banks
1991	5554		391.12		7.04
1992	6632	19.41	392.64	0.39	5.92
1993	7613	14.79	519.36	32.27	6.82
1994	8926	17.25	513.12	-1.20	5.75
1995	10572	18.44	601.44	17.21	5.69
1996	12068	14.15	765.24	27.23	6.34
1997	13176	9.18	693.96	-9.31	5.27
1998	14817	12.45	874.44	26.01	5.90
1999	18338	23.76	1284.72	46.92	7.01
2000	21172	15.45	1415.88	10.21	6.69
Annual Average		16.10		16.64	

Source: 1 Economic Review-2000 Government of Kerala, State Planning Board, Trivandrum.

2. Registration Department, I.G of Registration, Trivandrum.

### 3.11 CHIT FUNDS: LEGISLATIVE REGULATIONS

With a view to regulate the working of Chit Funds and providing safety to all parties concerned, comprehensive Acts have been introduced in Kerala from time to time. The purpose of legislation is not merely to protect the subscribers but to safeguard the interests of the foremen too. The *Chitties* Regulations III of 1094 (1918) was enacted for the first time in India in the erstwhile princely State of Travancore, for regulating the working of *Chitties*. Before the enactment of the Kerala *Chitties* Act, 1975, the following Statutes regulated the Chit Fund business in the state:

- The Cochin *Kuries* Act VII of 1107 in the Cochin area (1931-32)
- The Cochin Starting of *Kuries* (Restriction) Act XII of 1120 (1945)
- The Travancore *Chitties* Act, 1120 (1945).

The above Acts were very specific as to the rights, duties and liabilities of the foreman to the subscribers and the obligations and privileges of the prized and non-prized subscribers. They also prescribe punishment and fine for contravening its provisions. Many of these provisions formed the basis of the later Chit Acts in the country particularly the Kerala *Chitties* Act, 1975.

The above Acts were not applicable to the Malabar region and so Chit agreements were drawn under the Indian Contract Act. The failure of some Chit Funds in certain places of the region brought discredit to the system. Hence there was a need for a comprehensive legislation for controlling the working of Chit Funds. This necessitated the enactment of a uniform law relating to Chits, applicable to the entire state. Accordingly the Kerala *Chitties* Act, 1975 (an Act to define, amend and consolidate the law relating to *Chitties* in the State of Kerala) came into force from 25<sup>th</sup> August 1975.

### 3.11.1 Kerala *Chitties* Act, 1975

The Kerala *Chitties* Act, 1975 was introduced to bring about a uniform law relating to Chits. This Act incorporated many novel changes to better safeguard the interests of the participants. According to the Act, no *Chitty* shall be started and conducted unless the previous sanction of the government or of such officer empowered by the government is obtained and only after the *Chitty* being registered in accordance with the provisions of the Act. The Kerala *Chitties* Act limits the total *Chitty* amount in the case of any one *Chitty* conducted by a foreman to Rs.25,000 and further limits the right of a foreman to conduct *Chitties* at a time of which the aggregate amount shall not exceed 50 per cent of the net asset of the foreman. The Kerala *Chitties* Amendment Act, 2002 has removed the maximum limit of Chit amount in the case of a *Chitty* conducted by a foreman.

Sub-section 2 of Part II, insists on the distribution of '*Veethapalisa*' (share of discount) among both prized and non-prized subscribers. Discount is limited to 30 per cent of the Chit amount. The Act insists that every foreman shall, before the first draw of the Chit, execute a bond in favour of the other

subscribers. The foreman should deposit in an approved bank, an amount equal to the Chit amount and transfer the amount so deposited in favour of the Registrar as security. The Registrar shall after the termination of a Chit and after satisfying himself that the claims of all the subscribers have been fully satisfied, order the release of the security furnished.

The foreman shall be entitled to obtain his prize at the first instalment as specified in the '*Variola*' without discount. Further he is entitled to a commission not exceeding 5 per cent of the Chit amount. The Act prevents all private foremen from conducting big Chits and includes provisions for protecting the interests of the subscribers. The rights and duties of the foreman as well as the subscribers, both prized and non-prized, are also specified in the Act. The provisions of the Act specifically explain how meeting of the general body of the subscribers will be held, the conditions for the termination of *Chitties*, the inspection of documents by the Registrar or inspecting officer, the winding up of *Chitties*, etc.

But in the wider context of examining in depth the activities of the non-banking financial activities, including institutions conducting Chit Funds or *Kuries*, the Banking Commission <sup>37</sup> (1972) had recommended *inter alia*, that it is essential to have a uniform Chit Fund legislation applicable to the whole country. The study group on NBCs <sup>38</sup> (1974) was unanimously of the view that Central Chit Fund legislation would ensure uniformity in the provisions applicable to Chit Fund institutions throughout the country. A uniform Chit Fund legislation would also prevent such institutions from taking advantage either of the absence of any law governing Chit Funds in any State or exploit the benefit of any lacuna or relaxation in any State by extending their activities in such States. Accordingly the Chit Funds Act, 1982 - an Act to provide for the regulation of Chit Funds and for matters connected therewith - came into force, and is applicable to the whole of India.

### **3.11.2 The Chit Funds Act, 1982**

The Chit Funds Act, 1982 <sup>39</sup> is the Central Act applicable to the whole of India, introduced to ensure uniformity in Chit business. It prevents



the Chit Fund institutions from taking advantages either in the absence of any laws governing business in any state or exploiting the shortcomings in the administration of the Act in certain states. A Central Act is preferable to various State Acts because of the following reasons:

The basic characteristics of Chit Funds in the country are similar and a uniform legislation can treat them all alike. Many Chit Funds have branches in more than one state and independent Act in each state will, not only create difficulties, but also pave the way for lopsided development of Chits in various states. The mushroom growth of Chit Funds in many states, where there are no legislative controls and also the failure of improperly managed Chit Funds can be attributed to the absence of comprehensive legislation. Absence of uniform legislation may result in the growth of Chit Funds on unhealthy lines <sup>40</sup>.

The Central Act gave full freedom to the state governments to adopt the same in their respective states as and when they desire. However many states including Kerala have not yet adopted the Central Chit Funds Act. The Act, 1982 has fixed the limit of aggregate business that can be done by the entities, as Rs.25,000 in the case of an individual foreman, as Rs. One Lakh for firms with four or more partners, and for a company or society, ten times the net owned funds.

### **3.11.3 The Chit Funds Amendment Act, 2001**

The Chit Funds (Amendment) Act, 2001 <sup>41</sup> sought to amend the original Act of 1982, following the Supreme Court judgment of 1993. It enhanced the ceiling on discount to be foregone by a prized subscriber from 30 per cent to 40 per cent. The total Chit *sala* of an individual foreman has been enhanced from Rs.25,000 to Rs. One Lakh. It also increased the ceiling of aggregate Chit amount of the firm or other associations from Rs.1 Lakh to Rs.6 Lakhs. Besides, Section 20 of the 1982 Act has been amended to provide the deposit in the name of the Registrar as an amount equal to 50 per cent of

the Chit amount in cash, in an approved bank and the balance 50 per cent of the Chit amount in the form of bank guarantee.

#### **3.11.4 The Kerala *Chitties* Amendment Act, 2002**

As part of the reform measures in Chit business, Government of Kerala announced certain amendments <sup>42</sup> in the Kerala *Chitties* Act, 1975. Accordingly, in section 4, sub-section (1) (a) shall be inserted as - where a Chit is registered outside the State and 20 percent or more of the subscribers are persons normally residing in the State, the foreman of the Chit shall open a branch in the state and obtain sanction and registration under the provisions of this Act.

In Section 3, a new sub-section 7 shall be added that sanction shall be deemed to have been issued after thirty days from the date of application if no decision is taken up by the government or by such officer as may be empowered by the government on this behalf.

Though the maximum limit of Chit amount in the case of any one *Chitty* conducted by a foreman is removed by this amendment, it is insisted that, no foreman shall be entitled to conduct at a time Chits the aggregate amount of which exceeds 50 per cent of the net assets of the foreman. The main objective of the amendment has been to discourage the flight of Chit foremen outside Kerala for starting Chits. The removal of the maximum limit of Chit amount may be intended towards this objective.

#### **3.12 COST AND RETURN ON CHITS**

The Chit is a saving instrument with the option for conversion to a debt instrument before it matures. One of the unique features of Chits is that the subscribers need not pay a uniform rate of interest for their borrowings nor receive a uniform rate of return on their savings. Another peculiarity of Chit is that no member has to pay the entire Chit amount by way of the periodical subscription and no member can receive the entire Chit amount as prize money except the foreman.

The cost and return of a Chit subscriber is determined by a number of factors such as duration of the Chit, the instalment at which prize money is received, the discount offered by different members at the auction, the foreman's commission, conditions on bidding like fixed or flexible ceiling, the opportunity cost of the monthly subscriptions and the return a member could have earned by investing his prize money elsewhere. In determining the cost and return on Chits of different *sala* and duration, the prevailing rate of interest has a very important role to play.

Different agencies and individual researchers have used different methods to arrive at a satisfactory measure of cost and return on Chits <sup>42</sup>. In order to assess and analyse the cost and return to the subscribers, the researcher has collected the actual profiles of few terminated Chits from different Chit institutions and has used different methods for evaluation. It must be added that each of the methods used to calculate the cost and return on Chits has its own limitations.

### **3.12.1 Method 1**

#### **Financial Implications of an Auction cum Lot Chit**

In this method, a simple way of estimation has been used to ascertain the gain and loss or return and cost on Chit to the subscriber. The case of an actual terminated Chit of KSFE has been assessed here. In Table 3.14 we analysed the case of a Chit, where the number of subscribers was 50, the capital contributed by the 50 members at the rate of Rs.1,000 per month was Rs.50,000, the foreman's commission at the rate of 5 per cent of capital was Rs.2,500, and the net Chit amount after foreman's commission was Rs.47,500. The discount offered at the monthly auction was distributed equally among the subscribers. The potential compound interest earning on prize amount at 10 percent has been shown in column 8 of Table 3.14.

**Table 3.14**

**Financial Implications of an Auction cum Lot Chit**

Sala = Rs.50,000 (1000 x 50)

Duration: 50 Months

Instal. No.	No. of Months for Interest	Prize Amount	Monthly Subscription less discount	Total Discount Rs. 6186	Loss on bidding (Sala - Col. 3)	Loss / gain (Col 6 minus total of Col. 5)	Compound interest @10% on prize amount	Actual gain adjusted to the discount (7+8)
1	2	3	4	5	6	7	8	9
1	49	50000	1000	-	-	+6186	23789	29975
2	48	35000	750	250	15000	-8814	16244	7430
3	47	35000	750	250	15000	-8814	15838	7024
4	46	35000	750	250	15000	-8814	15436	6622
5	45	35000	750	250	15000	-8814	15037	6223
6	44	35000	750	250	15000	-8814	14641	5827
7	43	35000	750	250	15000	-8814	14248	5434
8	42	35000	750	250	15000	-8814	13859	5045
9	41	35000	750	250	15000	-8814	13472	4658
10	40	35000	750	250	15000	-8814	13089	4275
11	39	35000	750	250	15000	-8814	12708	3894
12	38	35000	750	250	15000	-8814	12331	3517
13	37	35000	750	250	15000	-8814	11956	3142
14	36	35000	750	250	15000	-8814	11585	2771
15	35	35000	750	250	15000	-8814	11216	2402
16	34	35000	750	250	15000	-8814	10851	2037
17	33	35000	750	250	15000	-8814	10488	1674
18	32	35000	750	250	15000	-8814	10128	1314
19	31	35000	750	250	15000	-8814	9771	957
20	30	35000	750	250	15000	-8814	9417	603
21	29	35000	750	250	15000	-8814	9066	252
22	28	35000	750	250	15000	-8814	8717	-97
23	27	39850	847	153	10150	-3964	9531	5567
24	26	41600	882	118	8400	-2214	9542	7328
25	25	39500	840	160	10500	-4314	8676	4362
26	24	42000	890	110	8000	-1814	8820	7006
27	23	41500	880	120	8500	-2314	8318	6004
28	22	45500	960	40	4500	1686	8687	10373
29	21	45900	968	32	4100	2086	8331	10417

Instal. No.	No. of Months for Interest	Prize Amount	Monthly Subscription less discount	Total Discount Rs. 6186	Loss on bidding (Sala - Col. 3)	Loss / gain (Col 6 minus total of Col. 5)	Compound interest @10% on prize amount	Actual gain adjusted to the discount (7+8)
1	2	3	4	5	6	7	8	9
30	20	45850	967	33	4150	2036	7894	9930
31	19	43900	928	72	6100	86	7151	7237
32	18	46000	970	30	4000	2186	7070	9256
33	17	46000	970	30	4000	2186	6650	8836
34	16	46200	974	24	3800	2386	6260	8646
35	15	46800	986	14	3200	2986	5921	8907
36	14	47500	1000	-	2500	3686	5587	9273
37	13	47500	1000	-	2500	3686	5167	8853
38	12	47500	1000	-	2500	3686	4750	8436
39	11	47500	1000	-	2500	3686	4337	8023
40	10	47500	1000	-	2500	3686	3927	7613
41	9	47500	1000	-	2500	3686	3520	7206
42	8	47500	1000	-	2500	3686	3116	6802
43	7	47500	1000	-	2500	3686	2716	6402
44	6	47500	1000	-	2500	3686	2318	6004
45	5	47500	1000	-	2500	3686	1924	5610
46	4	47500	1000	-	2500	3686	1533	5219
47	3	47500	1000	-	2500	3686	1145	4831
48	2	47500	1000	-	2500	3686	761	4447
49	1	47500	1000	-	2500	3686	379	4065
50	0	47500	1000	-	2500	3686	0	3686
			43812	6186				

Source: Computed from a Terminated Chit conducted by K.S.F.E

As per this method practically every member has gained in the Chit scheme. Actual gain is estimated as the sum of the compound interest earned on prize amount and the difference between the loss on bidding and the total of the discount accrued by him. Column 9 of the above Table shows the actual gain to the subscribers. However, this method suffers from a serious drawback in that, we have not taken into account the opportunity cost of monthly subscription and the time value of money. In the following methods, these aspects are also taken into account.

### 3.12.2 Method 2

#### Net Return Method

In this method, an attempt has been made to find out the net return from *Chitty* by taking into account the opportunity cost of monthly subscriptions. For this, compound value of monthly subscription including interest (Total of column 4, Rs. 53814) as well as the compound value of prize amount including interest (Column 6, and both at 10 %) has been estimated. Finally by comparing the values in column 6 and the total of column 4, we get relevant information on the net return of Chit (Column 7).

As per this method, other than the foreman, those who gain from the Chit are those who bid the prize amount at the 28<sup>th</sup>, 29<sup>th</sup> and 30<sup>th</sup> instalments and all other subscribers seem to be borrowers. The above estimation reveals that Chitty as a pure saving avenue seems less attractive.

**Table 3.15**

#### **NET RETURN FROM CHITTY**

Instalment No.	No. of months remaining	Monthly subscription	Compound value of subscription @ 10%	Prize amount	Compound value of prize amount @ 10%	Net return Col.6 - Col.4 total (53814)
1	2	3	4	5	6	7
1	49	1000	1008	50000	75088	21274
2	48	750	1773	35000	52127	-1687
3	47	750	2544	35000	51697	-2117
4	46	750	3321	35000	51269	-2545
5	45	750	4105	35000	50846	-2968
6	44	750	4896	35000	50425	-3389
7	43	750	5693	35000	50009	-3805
8	42	750	6497	35000	49595	-4219
9	41	750	7307	35000	49186	-4628
10	40	750	8124	35000	48779	-5035
11	39	750	8948	35000	48376	-5438
12	38	750	9779	35000	47976	-5838
13	37	750	10617	35000	47580	-6234
14	36	750	11461	35000	47186	-6628

Instalment No.	No. of months remaining	Monthly subscription	Compound value of subscription @ 10%	Prize amount	Compound value of prize amount @ 10%	Net return Col.6 - Col.4 total (53814)
1	2	3	4	5	6	7
15	35	750	12313	35000	46796	-7018
16	34	750	13172	35000	46410	-7404
17	33	750	14038	35000	46026	-7788
18	32	750	14911	35000	45646	-8168
19	31	750	15792	35000	45268	-8546
20	30	750	16680	35000	44894	-8920
21	29	750	17575	35000	44523	-9291
22	28	750	18478	35000	44155	-9659
23	27	847	19486	39850	49859	-3955
24	26	882	20537	41600	51618	-2196
25	25	840	21555	39500	48607	-5207
26	24	890	22632	42000	51256	-2558
27	23	880	23708	41500	50228	-3586
28	22	960	24874	45500	54614	800
29	21	968	26057	45900	54639	825
30	20	967	27250	45850	54128	314
31	19	928	28412	43900	51398	-2416
32	18	970	29627	46000	53411	-403
33	17	970	30852	46000	52970	-844
34	16	974	32091	46200	52760	-1054
35	15	986	33353	46800	53004	-810
36	14	1000	34639	47500	53352	-462
37	13	1000	35936	47500	52911	-903
38	12	1000	37244	47500	52474	-1340
39	11	1000	38563	47500	52040	-1774
40	10	1000	39893	47500	51610	-2204
41	9	1000	41233	47500	51184	-2630
42	8	1000	42585	47500	50761	-3053
43	7	1000	43948	47500	50341	-3473
44	6	1000	45323	47500	49925	-3889
45	5	1000	46709	47500	49512	-4302
46	4	1000	48107	47500	49103	-4711
47	3	1000	49516	47500	48697	-5117
48	2	1000	50937	47500	48295	-5519
49	1	1000	52370	47500	47896	-5918
50	0	1000	53814	47500	47500	-6314

The net return from Chitty to various interest rates (5% to 18 %) are shown in Appendix A. The table reveals that the lower the rate of interest (say 5 per cent or 6 per cent), the late bidders of the prize money are the gainers and the higher the rate of interest (say 15 per cent or 18 per cent), the early bidders of the prize amount are the gainers of the Chit.

The net return from a private Chit (with bases outside) is shown in Appendix B. In this case the non-prized subscribers alone are eligible for fixed discount (ie., an incentive to the non-bidders) and hence the cost of Chit (total of monthly subscription) is different for the prized and for the non-prized subscribers. As per this method, majority of the non-prized subscribers gain (savers) from Chit, while all the prized subscribers seem to be borrowers. The system of fixed discount offers sufficient incentives to the subscribers who consider Chit as a saving avenue. It is in this context that Mohandas, M., (1988) suggested the introduction of a fixed discount or differential sharing of the dividends, which alone can compensate the losses for the late bidders.

Private Chits in general (not registered in Kerala) and informal Chits offer several mysterious schemes, which make the calculation of cost and return difficult and meaningless. They provide fixed discount to the non-prized subscribers, bonus to the non-prized subscribers, gifts as incentives to the prompt subscribers and charge 7.5 per cent to 10 per cent as foreman commission. The ceiling on discount goes down to 40 per cent or even below subject to terms and conditions

### **3.12.3 Method 3**

#### **Net Present Value Approach**

In this method, cost and return on *Chitty* is calculated by using Net Present Value. The present value of outflow (ie. monthly subscription of Chit) is shown in Col. 5 and the present value of inflow (prize amount) is shown in Col.6, both calculated at 10 per cent interest. By comparing the present value of inflows and outflows, we get the net present value of the Chit. (Col.7). Table 3.16 reveals that the subscribers who bid the prize amount at 28<sup>th</sup>, 29<sup>th</sup>,



and 30<sup>th</sup> instalments are the gainers according to this approach. It may be seen that the results are similar to the second method discussed earlier.

This method of estimation of cost and return using the present value approach shows that the return from Chit is less attractive in the case study examined.

**Table 3.16**

**Net Return from Chitty: Net Present Value Approach**

Instalment No.	No. of Months Remaining	Monthly Subscription	Prize Amount	Present Value of Monthly Subscription (PV of outflow) @ 10%	Present Value of Prize Amount (PV of inflow) @ 10%	Net Present Value =PV of Inflow – PV of Outflow (Total 35538)
1	2	3	4	5	6	7
1.	49	1000	50000	1000	50000	14462
2.	48	750	35000	744	34711	-827
3.	47	750	35000	738	34424	-1114
4.	46	750	35000	732	34139	-1399
5.	45	750	35000	726	33857	-1681
6.	44	750	35000	720	33577	-1961
7.	43	750	35000	714	33300	-2238
8.	42	750	35000	708	33025	-2513
9.	41	750	35000	702	32752	-2786
10.	40	750	35000	696	32481	-3057
11.	39	750	35000	690	32213	-3325
12.	38	750	35000	685	31946	-3592
13.	37	750	35000	679	31682	-3856
14.	36	750	35000	673	31421	-4117
15.	35	750	35000	668	31161	-4377
16.	34	750	35000	662	30903	-4635
17.	33	750	35000	657	30648	-4890
18.	32	750	35000	651	30395	-5143
19.	31	750	35000	646	30144	-5394
20.	30	750	35000	641	29894	-5644
21.	29	750	35000	635	29647	-5891
22.	28	750	35000	630	29402	-6136
23.	27	847	39850	706	33200	-2338
24.	26	882	41600	729	34371	-1167
25.	25	840	39500	688	32367	-3171
26.	24	890	42000	723	34131	-1407
27.	23	880	41500	709	33446	-2092

Instalment No.	No. of Months Remaining	Monthly Subscription	Prize Amount	Present Value of Monthly Subscription (PV of outflow) @ 10%	Present Value of Prize Amount (PV of inflow) @ 10%	Net Present Value =PV of Inflow – PV of Outflow (Total 35538)
28.	22	960	45500	767	36366	828
29.	21	968	45900	767	36383	845
30.	20	967	45850	760	36043	505
31.	19	928	43900	723	34225	-1313
32.	18	970	46000	750	35566	28
33.	17	970	46000	744	35272	-266
34.	16	974	46200	741	35132	-406
35.	15	986	46800	744	35294	-244
36.	14	1000	47500	748	35526	-12
37.	13	1000	47500	742	35233	-305
38.	12	1000	47500	736	34941	-597
39.	11	1000	47500	730	34653	-885
40.	10	1000	47500	724	34366	-1172
41.	9	1000	47500	718	34082	-1456
42.	8	1000	47500	712	33801	-1737
43.	7	1000	47500	706	33521	-2017
44.	6	1000	47500	700	33244	-2294
45.	5	1000	47500	694	32969	-2569
46.	4	1000	47500	688	32697	-2841
47.	3	1000	47500	683	32427	-3111
48.	2	1000	47500	677	32159	-3379
49.	1	1000	47500	671	31893	-3645
50.	0	1000	47500	666	31629	-3909
		43812		35538		

#### 3.12.4 Method 4

##### Internal Rate of Return (I R R ) Method

The Internal Rate of Return is that discount rate at which the sum of present value of operating net cash inflows is equal to the sum of the present value of cash outflows. Thus IRR is the discount rate at which net present value is zero. In the context of Chits, cash inflow is the prize amount to each subscriber at one point of time, which, varies for different individuals, and cash outflow is the monthly Chit subscriptions that are spread over the entire Chit period. In the case of Chits, bidding at a particular instalment

implies that subscriber is obtaining a loan. If IRR for bidding the Chit at 2<sup>nd</sup> instalment is 11.76 per cent, it implies that the bidder is obtaining a loan at 11.76 per cent. This is profitable when he has any alternative investment opportunities yielding a return greater than 11.76 per cent

If IRR is less than the market rate, it is an indication that the member is an investor and if IRR is greater than the market rate, it shows that the subscriber is a borrower. Market rate here refers to the rate of interest expected to obtain from alternative investment opportunities, at-least the compound interest earnings from the prize amount as fixed deposit for the remaining months of the Chit. In an example worked out and given in the Appendix C, the rate at which the subscriber has discounted the future value of the Chit amount varies from 4.02 per cent to 42.6 per cent, avoiding approximate values. By considering a reinvestment opportunity at 10 per cent per annum compound interest, we can locate the possible savers and borrowers of the particular case study. In the case of the foreman, the IRR is indeterminate, because he gets the prize amount (cash inflow) of Rs. 50,000 at the first instalment itself by virtue of his right, whereas the cash outflow (monthly subscription) totalling Rs. 43,812 is spread over 50 months. It is obvious that the foreman is always a gainer and it is illogical to apply any negative discount factor in this particular case.

Besides the foreman, the other prominent gainers are those who bid from 32<sup>nd</sup> to 50<sup>th</sup> instalments. Subscribers who bid at other instalments resemble borrowers.

One of the limitations of this method is that the IRR for the bidders in certain instalments give only approximate extreme values. Another limitation is the inherent assumption regarding the alternative investment opportunities, at the IRR. Other researchers were also confronted by the same limitations <sup>43</sup>. The limitations of this approach in the calculation of cost and return on Chit may give distorted results. In view of these limitations, we are not making any further analysis or observations based on the IRR method.

### 3.12.5 Method 5

#### Financial Implications of a Chit Based on Loan at 15 per cent Interest

In this method, the prize amount receivable from Chit Funds could be treated as a loan availed of for a period of 50 months (i.e., same as the total duration of the Chit). The general lending rate of banks has been taken as 15 per cent per annum. The sum of the monthly subscription to Chit (actual cost to the subscriber) equals Rs.43,812. If monthly Chit subscription could be treated as the periodical repayment of the loan, the loan outstanding including interest is shown in Col. 8. Here we assume the amount to be equal to the prize amount received. In this present example, excluding the foreman, the prize amount has remained at Rs.35,000 for the first 22 instalments, thereafter it has varied for each of the subsequent months till 36<sup>th</sup> month where it has gone upto Rs.47,500 and continued to remain the same amount till the end (i.e., 50<sup>th</sup> month). Hence loan amounts assumed will vary in the 23<sup>rd</sup> to 36<sup>th</sup> months. Thus the loan outstanding at the end of the Chit period in the case of a borrower-subscriber who takes a loan of Rs.35,000 in the second month becomes Rs.5209 (See, Table 3.17 last value of Col.8). This is the balance of the amount to be paid for the closure of the loan. But since he had already started remitting money from the first month onwards, even though he takes the loan after one month, he must be treated as a saver, like a recurring deposit holder, till the time he gets the loan. Hence he is eligible for interest on the amount remitted upto the period of availing the loan. In the case mentioned above it is Rs. 7 (at 8% interest) on Rs.1000 for one month. So the actual amount to be paid for the closure of the loan is Rs.5202. (Rs.5209-Rs.7) only. In the same way, the person who gets Rs. 35,000 after 22 months will earn an interest of Rs.1365. Hence the loss on the loan as compared to Chit will be Rs.3844 (i.e., 5209-1365). The above estimate reveals that subscribing to a Chit seems more attractive than availing of a loan at the ruling interest rate <sup>44</sup>.

To illustrate one more case:

The loss on Loan for the 23<sup>rd</sup> month is calculated as follows:

Amount of loan = Rs. 39850

(i.e., the prize amount at the 23<sup>rd</sup> instalment)

Loan outstanding after the 50<sup>th</sup> month = Rs.14235

The interest earned on subscription till the 23<sup>rd</sup> month = Rs.1492

Therefore net loss on Loan = Rs. 12743

**Table 3.17**

**Financial Implications of a Chit Based on Loan at 15 per cent Interest**

Inst. No.	No. of Months Remaining	Monthly Subscription	Prize Amount	Loan Amount	Loan Outstanding	Interest Monthly	Loan Outstanding Including Interest	Interest at 8%	Loss on Loan
1	2	3	4	5	6	7	8	9	10
1	49	-1000	50000	35000	34000	425	34425	7	5202
2	48	-750	35000	34425	33675	421	34096	18	5191
3	47	-750	35000	34096	33346	417	33763	35	5174
4	46	-750	35000	33763	33013	413	33425	57	5152
5	45	-750	35000	33425	32675	408	33084	84	5125
6	44	-750	35000	33084	32334	404	32738	116	5093
7	43	-750	35000	32738	31988	400	32388	154	5055
8	42	-750	35000	32388	31638	395	32033	196	5013
9	41	-750	35000	32033	31283	391	31674	244	4965
10	40	-750	35000	31674	30924	387	31311	298	4911
11	39	-750	35000	31311	30561	382	30943	356	4853
12	38	-750	35000	30943	30193	377	30570	420	4789
13	37	-750	35000	30570	29820	373	30193	490	4719
14	36	-750	35000	30193	29443	368	29811	565	4644
15	35	-750	35000	29811	29061	363	29424	645	4564
16	34	-750	35000	29424	28674	358	29033	731	4478
17	33	-750	35000	29033	28283	354	28636	823	4386
18	32	-750	35000	28636	27886	349	28235	920	4289
19	31	-750	35000	28235	27485	344	27829	1023	4186
20	30	-750	35000	27829	27079	338	27417	1131	4078
21	29	-750	35000	27417	26667	333	27000	1245	3964
22	28	-750	35000	27000	26250	328	26578	1365	3844
23	27	-847	39850	26578	25731	322	26053	1492	12743
24	26	-882	41600	26053	25171	315	25486	1625	15867

Inst. No.	No. of Months Remaining	Monthly Subscription	Prize Amount	Loan Amount	Loan Outstanding	Interest Monthly	Loan Outstanding Including Interest	Interest at 8%	Loss on Loan
1	2	3	4	5	6	7	8	9	10
25	25	-840	39500	25486	24646	308	24954	1765	11819
26	24	-890	42000	24954	24064	301	24365	1911	16325
27	23	-880	41500	24365	23485	294	23778	2064	15242
28	22	-960	45500	23778	22818	285	23103	2225	22525
29	21	-968	45900	23103	22135	277	22412	2393	23101
30	20	-967	45850	22412	21445	268	21713	2569	22832
31	19	-928	43900	21713	20785	260	21045	2753	19019
32	18	-970	46000	21045	20075	251	20326	2943	22737
33	17	-970	46000	20326	19356	242	19598	3142	22538
34	16	-974	46200	19598	18624	233	18857	3348	22332
35	15	-986	46800	18857	17871	223	18094	3563	23606
36	14	-1000	47500	18094	17094	214	17308	3785	43715
37	13	-1000	47500	17308	16308	204	16512	4016	43484
38	12	-1000	47500	16512	15512	194	15705	4255	43245
39	11	-1000	47500	15705	14705	184	14889	4502	42998
40	10	-1000	47500	14889	13889	174	14063	4757	42743
41	9	-1000	47500	14063	13063	163	13226	5021	42479
42	8	-1000	47500	13226	12226	153	12379	5293	42207
43	7	-1000	47500	12379	11379	142	11521	5574	41926
44	6	-1000	47500	11521	10521	132	10653	5863	41637
45	5	-1000	47500	10653	9653	121	9773	6161	41339
46	4	-1000	47500	9773	8773	110	8883	6468	41032
47	3	-1000	47500	8883	7883	99	7982	6783	40717
48	2	-1000	47500	7982	6982	87	7069	7107	40393
49	1	-1000	47500	7069	6069	76	6145	7440	40060
50	0	-1000	47500	6145	5145	64	5209	7781	39719

Summarising the analysis of the cost and return on Chit has revealed that the economics of Chits lies in considering it as a savings-cum-borrowing avenue. Though Chit as a pure saving avenue seems to be less attractive, as a pure borrowing avenue Chit seems to be cheaper as compared to bank loans. In the case of many subscribers who consider Chit as a way of forced savings, the gain on the Chit will be all the more higher. The real cost and return on Chit depends on a number of factors like the prevailing rate of interest, the instalment at which the prize money is obtained, the method of discount followed, the 'sala' size and the duration of the Chit

## **Conclusion**

Chit Funds as indigenous financial institutions had its origin in Kerala centuries back. From its humble beginning as a '*Changathi Kuri*' for mutual help, it has passed through different stages of growth. By leaps and bounds it has spread, not only in Kerala and South India, but also to other regions and countries. The unique features of the Chit scheme like the element of mutual help, compulsion in effecting saving, contractual form of saving, dual option for saving and borrowing and self-determined cost attract millions to this traditional financial intermediary. Some of the rigid aspects of the Kerala *Chitties* Act have resulted in an outflow of foremen to other States nominally, but with subscribers almost exclusively from Kerala. It has also resulted in the starting of 'Chit like' schemes, MDS and MBS by the Co-operatives. The conspicuous presence of Informal Chits is also very significant in Kerala, though authentic data is not available.

Trend analysis of the number of Chits and its turnover shows increasing trend throughout the period of analysis. Chit business in Kerala clearly shows a bias in favour of the southern districts with respect to the number of Chits as well as the volume of business. The role of KSFE in the sphere of Chit Finance in Kerala is precariously significant. Though, Chit subscription, as percentage of domestic deposits of banks remained more or less stable, the average annual growth rate of Chit turnover in comparison to the average annual growth rate of domestic deposits of banks is impressive. Chit Funds flourishing in Kerala as a unique financial intermediary reveals its great scope and highlights the need for popularising the system to other parts of the country.

## Notes and References

1. There are regional variations in the use of the term 'Chit'. In the Travancore area of the State of Kerala it is called 'Chitty': in the Cochin and Malabar areas it is popularly called 'Kuri'; in the other parts of the country it is called 'Chit' or 'Chit Fund'.
2. Nayar, CPS. *Chit Finance: An Exploratory Study on the Working of Chit Funds*, Vora and Co. Publishers Pvt. Ltd., Bombay, (1973), p.3.
3. i) Travancore Banking Enquiry Committee Report, Government of Travancore, Vol.1., (1930).  
ii) The Madras Provincial Banking Enquiry Committee Report, Government of India, Vol. 1., (1930).  
iii) Indian Central Banking Enquiry Committee, Part-I, Majority Report, Government of India, Vol.1, (1931).
4. Nayar, CPS, op. cit., p.1
5. Logan, William. *The Malabar Manual*, (1887), reprinted as *Malabar* by the Government of Madras in 1951, Vol.1, p. 173.
6. Cox, Sim. E. J, *Primitive Civilizations or Outlines of the History of Ownership in Archaic Communities*, Swan Sonnenschein and Co., London, Vol.1, (1894), p.568.
7. The Madras Provincial Banking Enquiry Committee Report, Government of India, Vol.1, (1930).
8. Report of the *Kuri* Committee, Government of Cochin, (1939).
9. Report of the Rural Banking Enquiry Committee, Government of India, (1950).
10. All India Rural Credit Survey, District Monograph, Quilon, RBI, Bombay, (1958), p.97.
11. Logan, William. op. cit., p.173.
12. Nayar, C.P.S. op. cit., p. 5.



13. The Report of the Travancore-Cochin Banking Enquiry Commission, (1956).
14. Nayar, C.P.S. op. cit., p. 6.
15. Sreedhara Menon, K.A, "Schemes for Starting Chitties under State Auspices", (1967), Special Officer, Kerala State, p.16.
16. See, Krishnamurthy, A. "Corporate Chits: A New Dimension", National Workshop on Management of Chit Funds, Chennai, November 14, (1997). Corporate Chits are savings and borrowing schemes for the Corporate Sector. Model Chit Corporation Ltd., Hyderabad, had introduced the Rs. 50 Lakhs and Rs.25 Lakhs Chit series, which were branded as 'Gold Line Series' and 'Silver Line Series' respectively to assist small segments of the Corporate Sector. This was in addition to the Rs.1 Crore 'Century Line Series' of the Model Chit Corporation Ltd., Hyderabad.
17. Nayar, C.P.S. op. cit., p. 7.
18. Balasubramanian, V. " The Chit Fund Business is Thriving in the South: Thanks to Stringent Norms", *The Economic Times*, 12<sup>th</sup> May (2002), p.7.
19. Administration Report, Registration Department, Government of Kerala, Trivandrum, (2000-01).
20. Nayar, C.P.S. op. cit., p. 4.
21. See, Thomas, P. J. "Our Economic Heritage", *Silver Jubilee Souvenir*, Dharmodayam Company, Thrissur, (1948). According to him, 'PalliKuries' were *Kuries* managed by the church priests as a way to help the financially weak parishioners. The *Chitties* were conducted on Sundays and the members were the followers of the church only. Our survey results show that nowadays, not only churches but also temples conduct *Kuries* regularly as a business and the membership is open to all.
22. Section 7, Subsection 4 of Kerala *Chitties* Act, 1975.
23. 'Pooval' *Kuri* is a long term Chit extending upto 20 years with subscriptions made in three or four instalments a year (generally) which is

related with the harvesting periods. The name 'Pooval' is derived from the Malayalam word 'Poo' or 'Poovu', which means crop.

24. A study on Non-Banking Financial Intermediaries, prepared by IFMR, RBI Publication, (1984).
25. Radhakrishnan, S. *Chit Funds and Finance Corporations*, IFMR Publications, Madras, (1975), p.7.
26. Radhakrishnan, S. Ibid, p.7.
27. A study on Non-Banking Financial Intermediaries, prepared by IFMR, RBI Publication, (1984), p.3. See Report of the Study by Asian Development Bank (1989), which describes Chit Funds as the only system for both savings and borrowings effected under mutual help with dignity.
28. In Community Chits, all the subscribers are known to each other and have small duration and relatively small Chit amount. See, Radhakrishnan, S. "Chit Funds vis-à-vis other NBFCs", National Workshop on Management of Chit Funds, Chennai, November (1997).
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30. Varma J.C, *Non-Banking Financial Companies*, Second Edition, Chapter XV, (1997), p. 491.
31. Travancore Banking Enquiry Committee Report, Government of Travancore, Vol.1, (1930).
32. Nayar, C.P.S. op. cit., p.161.
33. Nayar, C.P.S. op. cit., p.165.
34. All Kerala Private Chit Foreman Association, News Bulletin, Trichur, Vol.1, No.1, 12<sup>th</sup> April (2002), p.1.
35. The Report of the Travancore-Cochin Banking Enquiry Commission, (1956).
36. The Domestic Deposits of banks means Total Deposits of banks minus NRI Deposits.

37. The Report of the Study Group on Non-Banking Financial Intermediaries, Banking Commission, Government of India, (1972).
38. Study Group on Non-Banking Companies under the Chairmanship of James S Raj, (1974). The group recommended uniform central legislation for Chit Funds applicable to all states.
39. The Chit Funds Act, 1982. (Act No. 40 of 1982). An Act to provide for the regulation of Chit Funds and for matters connected with it, Law Publishers (India) Pvt. Ltd., (1998).
40. James S Raj, *op. cit.*
41. The Chit Funds (Amendment) Act 2001, 16<sup>th</sup> May (2001), Government of India.
42. The Kerala *Chitties* (Amendment) Act 2002, 1<sup>st</sup> April (2002), Government of Kerala.
43. Radhakrishnan, S. *Chit Funds and Finance Corporations* ed., IFMR (1975).
44. Further, it can be shown that borrowing by way of Chit is cheaper even at lower levels (in this case, till 12% per annum). However, at lower levels than 12%, in this case, Chit is not uniformly cheaper for all subscribers. (For subscribers who get the prize-money from 10<sup>th</sup> to 22<sup>nd</sup> instalments, Chitty is costlier than a bank loan at 11 per cent)

## **CHAPTER FOUR**

### **KERALA STATE FINANCIAL ENTERPRISES LTD. (KSFE)**

### **AN ASSESSMENT**

After presenting the evolution and growth of Chit Funds, this chapter discusses the origin and development of Kerala State Financial Enterprises Ltd. (KSFE). It presents the trend and dimensions of mobilisation of financial resources and also of various loans and advances provided by KSFE. This Chapter also makes a performance evaluation of the Company in terms of selected parameters.

#### **4.1 NEED FOR PUBLIC SECTOR CHIT FUND**

Chit business in Kerala was under private monopoly till 1969. The business of 'Chit' had been exposed to a wide variety of malpractices from its very inception. There existed ample scope for exploitation of the needy people by unscrupulous promoters for their own selfish interest. Lack of Government control offered many opportunities for new entrants in this lucrative field of business. The Government wanted to introduce some restrictions on the unbridled growth of such Chit institutions with a view to safeguarding the interests of the subscribers and to channelise the savings for productive purposes<sup>1</sup>. Another justification for State control was the need to avoid the concentration of wealth and power among a few. Besides, if the State participated in Chit business directly, the profit generated would flow back to the public in the form of utility services.

#### **4.2 ORIGIN OF KSFE**

In 1967, The Government of Kerala took a policy decision to the effect that *Chitties* should be conducted under state auspices as a means for

the collection of small savings. The then Finance Minister, in his budget speech for the financial year 1967-68 made the following announcement on the floor of the Kerala Assembly. "I view this decision as a bold step forward along the path towards socialism, aimed at bringing banks and other financial institutions under social control" <sup>2</sup>.

As the follow-up, the Government of Kerala, appointed a Special Officer in the year 1967, to look into the feasibility and desirability of starting Chit Funds in the public sector and also to prepare a comprehensive scheme for starting Chits under government control <sup>3</sup>. One of the objectives of starting Chit Funds in the public sector was to control the mushroom growth of private Chit Funds and to restrain their growth by offering effective competition.

The Special Officer, who presented his Report on 7<sup>th</sup> October 1967, recommended strongly the entry of the Government into the field of Chits. Though the recommendation was for conducting Chit as an adjunct of the Registration Department, the Government took a different view and decided to bring within its purview and control, not only *Chitties* or *Kuries*, but also certain other financial transactions for which socialisation was felt necessary. Accordingly the Government decided to organise a public sector undertaking with the name "The Kerala State Financial Enterprises Ltd." (KSFE) for the purpose of conducting Chits, hire purchase and insurance business under Government control. This apart, the Government of Kerala had a progressive vision for generating non-revenue income through such public sector ventures. Thus, KSFE Ltd. was incorporated as a Government Company on 6<sup>th</sup> November 1969 with its Head Office at Trichur with the objective of serving as a discipline factor to private Chit Funds<sup>4</sup>. The first Board of Directors was constituted as per G.O. (Rt.) 4876/69/Fin dated 26<sup>th</sup> November 1969.

KSFE comes under the group of Miscellaneous Non-Banking Financial Intermediaries. KSFE has the unique status of being the only public sector undertaking in India, which runs Chits and also one of the few profit making companies owned by the Government of Kerala.

### 4.3 CAPITAL STRUCTURE OF KSFE

The KSFE Ltd. is fully owned by the Government of Kerala. The Company, which started in a humble manner with a paid up capital of Rs. 2 Lakhs in 1969, has now grown to Rs.300 Lakhs with a capital structure of 3,00,000 shares of Rs.100/- each fully subscribed by the State Government.

The other main resources on which the Company finances its various schemes are:

1. Loans from the Government of Kerala
2. Deposits from the public and
3. Funds ploughed back from profit.

Table 4.1 gives the capital structure of KSFE during the period 1990-91 to 2000-01. There has been a significant infusion of capital in 1995-96. It may also be seen that reserves and surplus had a great jump during 1997-98 and 2000-01. However Table 4.1 also clearly shows that the percentage of net worth to total funds has been continuously declining, due to the increase in the rate of total borrowings and the low capital base of the Company. The year 2000-01 shows marked improvement in the ratio due to the large increase in the volume of reserves and surplus.

**Table 4.1**  
**Capital Structure of KSFE (Rs. Lakhs)**

Year	Equity Capital	Reserves and Surplus	Net Worth (NW)	Growth Rate	Total Borrowed Funds	Growth Rate	Percentage of N W to Total Borrowed Funds
1990-91	100	184.67	284.67	--	7420	--	3.8
1991-92	125	193.74	318.74	11.97	8906	20.03	3.6
1992-93	125	199.67	324.67	1.86	10391	16.67	3.1
1993-94	125	205.1	330.1	1.67	10590	1.92	3.1
1994-95	150	233.42	383.42	16.15	10561	-0.27	3.6

1995-96	300	245.75	545.75	42.34	15374	45.57	3.6
1996-97	300	296.43	596.43	9.29	26887	74.89	2.2
1997-98	300	407	707	18.54	43945	63.44	1.6
1998-99	300	426	726	2.69	64818	47.50	1.1
1999-00	300	458	758	4.41	75362	16.27	1
2000-01	300	1203	1503	98.3	88150	16.96	1.7

Source: Annual Reports, KSFE

#### **4.4 MANAGEMENT OF THE COMPANY**

The management of the Company has been vested in the Board of Directors constituted by the Governor from time to time. The number of Directors shall not be less than two and shall not be more than fifteen. The Governor may from time to time appoint two Directors, other than the Managing Director as Chairman and Vice-Chairman of the Board and determine the period for which either of them will hold his respective office. The Board of Directors as on November 2002 includes the Chairman, Managing Director and three other Directors holding the office as Additional Secretary (Taxes), Joint Secretary (Finance) and Inspector General of Registration.

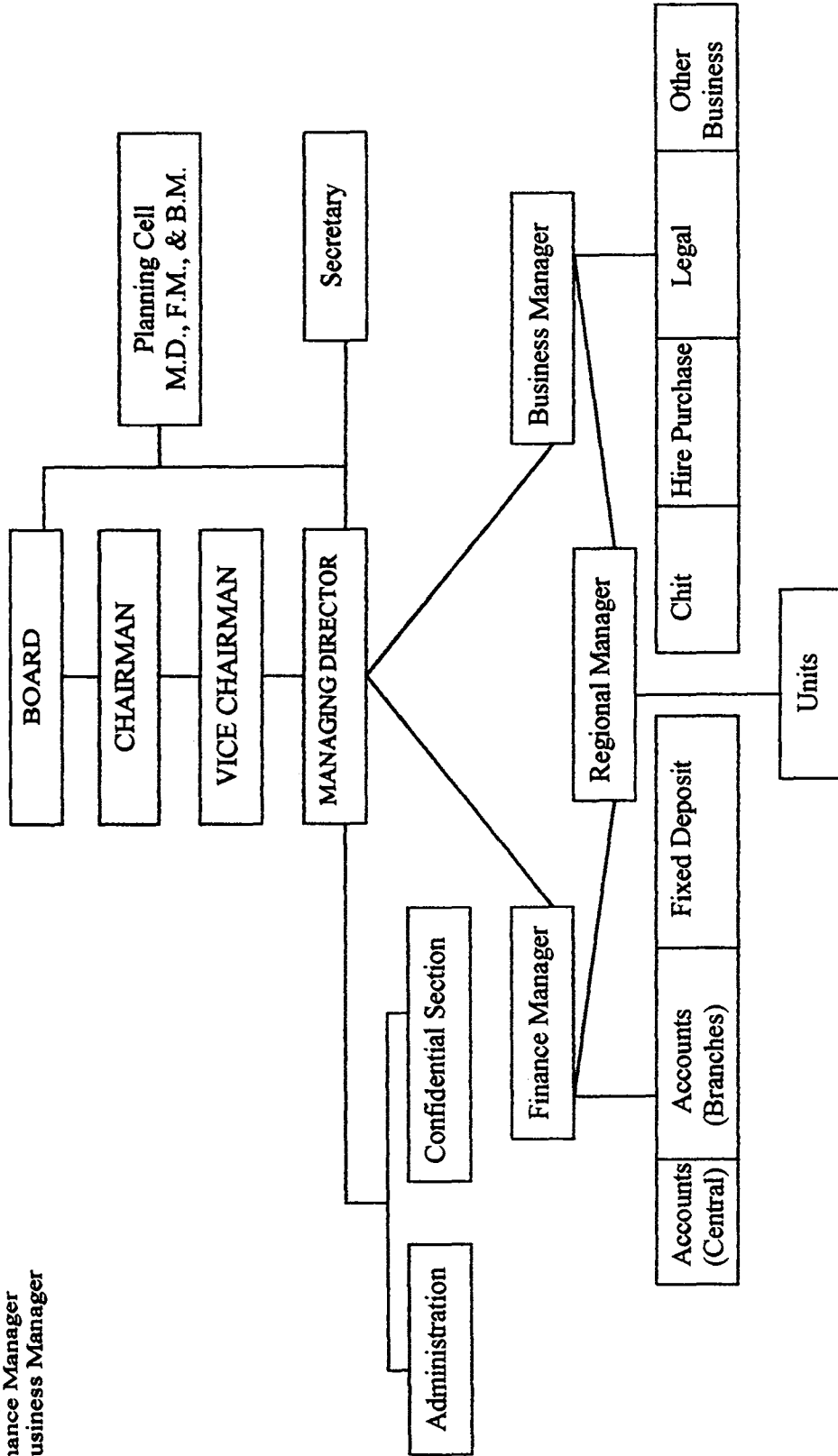
#### **4.5 ORGANISATION**

The organisational set up is a three-tier system from its very inception, with the Head Office as the top controlling and coordinating body, the Regions constituting the intermediary level, coordinating and controlling all the activities of the various branches under them and the branches at the base level as profit generating centres.

Chart 4.1 gives the organisational structure of KSFE Ltd.

Chart 4.1 Organizational Chart of KSFE Ltd

MD = Managing Director  
 FM = Finance Manager  
 BM = Business Manager





At the Head Office, the activities are grouped on functional as well as product basis under the control and supervision of the Managing Director.

The product departments are: -

1. *Chitty* Department and
2. Hire Purchase Department

The functional departments are: –

- Accounts Department
- Administrative Department
- Secretarial Department
- Legal Department and
- Internal Audit Department

#### **4.6 OBJECTIVES OF KSFE Ltd.**

The major objectives pursued by the Company on its incorporation are: -

- To start, conduct, promote, operate, manage and carry on the business of *Chitties* in India and elsewhere.
- To promote, undertake, organise, conduct, manage and carry on the business of general and miscellaneous insurance of any kind in India or elsewhere.
- To start, promote, conduct, operate, carry on and manage the business of dealers, agents and traders under the hire purchase system of articles, vehicles, machinery, materials, goods and tools of all capital goods and consumer goods and property of all nature and description for personal, domestic, office, commercial, industrial and community use and consumption as a business of the Company or as agents of the government, state or central or any body or organisation, there-under or of any other Company.
- To start, promote, conduct, operate and carry on the business for providing financial assistance for the construction of new buildings and

for repairs, renewals, alterations, additions or modifications of existing buildings and for self-employment schemes.

- To provide financial assistance to the hirers or others for the purpose of running and maintaining articles, equipment and other items acquired under Hire Purchase system of the Company.
- To advance money on the security of gold or other valuable securities.

#### **4.6.1 Ancillary Objectives**

- To subscribe for, acquire, hold, sell and otherwise deal in shares, stocks, debentures or assets of any Company or society for securing the interests of this Company and to invest the funds in government bonds and securities.
- To enter into any partnership or arrangement for joint working in any trading, commercial or financial business, firm or persons carrying on or engaged in any manufacture or business within the objectives of the Company or similar thereto.
- To establish, maintain, or become a member of training institutions, financial and commercial associations and conferences, workshops and schemes so as to benefit the Company directly or indirectly.

#### **4.6.2 Other Objectives**

- To carry on any other business that is similar to the business of the Company or any business connected with or incidental or allied to the business of the Company.
- To carry on the business of dealers, importers and exporters of all merchantable goods and to carry on and execute all kinds of financial trading and other operations.
- To act as agent for the Government of Kerala or any other authorities and to transact and to undertake and transact, trust or agency business of every kind and of any description.

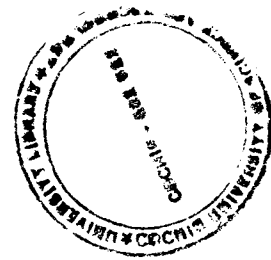
It is observed that some of the objectives of the Company like conducting Chits outside Kerala and promoting the business of general insurance of any kind in India or elsewhere are not yet fulfilled.

#### **4.7 SCHEMES OF THE COMPANY**

Beginning with Chits, the Company has over the years introduced several attractive schemes to cater to the needs of different classes of people. It mainly mobilises savings by instruments like Chits and deposit schemes and channelises them to acquire house and household durables, motor vehicles, equipment for self-employment and provides finance for augmenting working capital needs of small traders.

The main schemes of the Company as of now are:

1. Chit scheme
2. Passbook loan
3. New *Chitty* loan
4. Hire purchase scheme
5. Hire purchase (House modernisation scheme)
6. Employment oriented hire purchase scheme
7. Gold loan scheme
8. Trade financing scheme
9. Fixed deposit scheme
10. *Sugama* deposit scheme
11. New fixed deposit loan scheme
12. New housing finance scheme
13. Reliable customer loan



##### **4.7.1 Chit Scheme**

The purpose of the Chit scheme has been to provide an avenue of savings for people who aspire to save for the future by setting apart a portion

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of their monthly income. 'Chitty' or Chit is a unique scheme where the saving aspect and the advance aspects are blended together.

The core business of the Company has been Chit scheme ever since its formation. The Company takes 5 per cent of the Chit amount as foreman's commission from each member. The Chit scheme has been contributing a substantial portion of the total revenue of the Company (See Table 4.4).

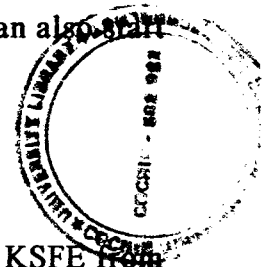
#### 4.7.1.1 Salient Features of KSFE Chits

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- Any Indian citizen, who has attained maturity, can subscribe to KSFE Chits.
- The due date for the payment of prize money is the 45<sup>th</sup> day after the auction, but with effect from 13-8- 2001 it has been changed by KSFE to the 30<sup>th</sup> day after auction.
- Advance payment of prize money (instant prize money) as a loan is available at the prevailing rate of interest.
- New *Chitty Loan*<sup>5</sup> (NCL) has been introduced to bridge the gap between the real need of the subscriber and the uncertain point of time in future when the ticket gets prized.
- Passbook loan scheme has been introduced from 1975 onwards to provide quick loan to non-prized subscribers to meet the urgent needs on the security of paid up subscription in their Chits.
- Monetary range of KSFE Chits extends up to Rs.10 Lakhs with monthly subscription of Rs 25,000 each. The duration ranges from 40 months to 100 months. Branches with the approval of the Head Office can also start Chits different from the above patterns.

#### 4.7.1.2 Privileges Enjoyed by KSFE

The Government of Kerala has been pleased to exempt KSFE from the operations of the following provisions of the Kerala *Chitties Act*, 1975:



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1. Section 3(1): Exemption from obtaining prior sanction from the Registrar for starting a *Chitty*
2. Section 3(5): Exemption from the limitations of minimum asset or net worth of the foreman
3. Section 11(1)(a): Exemption from the requirements of time at which or the place where the *Chitty* is to be conducted (vide G.O Rt. 401/78 TD dated 9<sup>th</sup> June 1978).
4. Section 17(1): Exemption from deposit of unpaid prize amount in an approved bank
5. Section 24(3): Exemption from deposit of arrears in an approved bank, of subscription realised from substituted subscriber
6. Section 25(2): Exemption from depositing the amount due to the defaulting subscriber in an approved bank, if he fails to furnish acknowledgement in writing for the amount due to him.
7. Section 29(4): Exemption from depositing the consolidated payments of future subscription realised in an approved bank from defaulted prized subscriber.
8. Section 42: Exemption from producing the documents before inspecting authority at his office.
9. Over and above all these, the Company enjoys exemption from stamp duty.

#### **4.7.1.3 Growth of Chit Business**

The total business of KSFE includes annual Chit turnover, total advances of all types and total deposits mobilised by the Company. Chit scheme being the core business of KSFE, the review of the growth trend of the Chit scheme and its contribution to the total revenue of the Company from the very beginning (1970-71 to 2000-01) have been presented in this section. New *Chitty* loans and Passbook loans have also been included for review. This section also presents the number of Chit subscribers, the decennial growth rates of Chits and their contribution to the total revenue.

Table 4.2 given below presents the growth of annual turnover of Chits and the increase in the number of Chit subscribers over the period 1970 to 2001. The Table reveals that there has been an increase of about 12.9 times in the annual Chit turnover showing an increase from Rs.107.40 Crore in 1990-91 to Rs. 1,385.24 Crore in 2000-01.

**Table 4.2**

**Growth of Chit Business in KSFE from 1970-71 to 2000-01**

Year	Aggregate Sala of all Branches Together (Rs.Lakhs)	Annual Chitty turnover (Sala x 12) (Rs. Lakhs)	Growth rate of Chitty turnover	No. of subscribers	Growth rate of no. of subscribers
1970-71	10	120	--	--	--
1971-72	31	372	210.00	--	--
1972-73	48	576	54.84	75000	--
1973-74	58	696	20.83	79000	5.33
1974-75	70	840	20.69	83000	5.06
1975-76	83	996	18.57	96000	15.66
1976-77	91	1092	9.64	92000	-4.17
1977-78	103	1236	13.19	98013	6.54
1978-79	116	1392	12.62	101073	3.12
1979-80	139	1668	19.83	106945	5.81
1980-81	155	1860	11.51	107255	0.29
1981-82	184	2208	18.71	112355	4.76
1982-83	219	2628	19.02	121430	8.08
1983-84	264	3168	20.55	130790	7.71
1984-85	308	3696	16.67	135930	3.93
1985-86	341	4092	10.71	138990	2.25
1986-87	385	4620	12.90	148100	6.55
1987-88	470	5640	22.08	156020	5.35
1988-89	581	6972	23.62	174325	11.73
1989-90	736	8832	26.68	192685	10.53
1990-91	895	10740	21.60	212185	10.12

Year	Aggregate <i>Sala</i> of all Branches Together (Rs.Lakhs)	Annual <i>Chitty</i> turnover ( <i>Sala</i> x 12) (Rs. Lakhs)	Growth rate of <i>Chitty</i> turnover	No. of subscribers	Growth rate of no. of subscribers
1991-92	1088	13056	21.56	227030	7.00
1992-93	1362	16344	25.18	246595	8.62
1993-94	1860	22320	36.56	268415	8.85
1994-95	2489	29868	33.82	295060	9.93
1995-96	3266	39192	31.22	323947	9.79
1996-97	4254	51048	30.25	357350	10.31
1997-98	5951	71412	39.89	414585	16.02
1998-99	7421	89052	24.70	493041	18.92
1999-00	9569	114828	28.94	598449	21.38
2000-01	11544	138524	20.64	700000	16.97
Average Annual Growth Rate (AAG)			29.23		8.44

Source: Annual Reports, KSFE

Table 4.2 also reveals that over the period from 1970 to 2001 there has been a robust average annual growth rate of 29.23 per cent in the annual Chit turnover <sup>6</sup> showing an increase from Rs.1.2 Crore to Rs.1,385.24 Crore. The number of subscribers shows an increase of about 9.3 times from 75,000 in 1972-73 to 7 Lakhs by 2000-01. Thus the progress of the Company's Chit business continued to be satisfactory from the very year of starting the first *Chitty* on 15-6-1970. There were more than 7 Lakh subscribers in the Chits that are being conducted from the various branches of the Company with an aggregate monthly *sala* of more than Rs.115.44 Crore as of 2000-01. The average annual growth rate of Chit turnover for the period of analysis (29.23%) is also seen to be higher than the average annual growth rate of the number of subscribers (8.44 %). A comparison of the decennial growth rate of the volume of Chit turnover of KSFE with that of the Chit industry in Kerala along with a graphical representation has been attempted in the following section.

#### 4.7.1.4 Decennial Growth in the Volume of KSFE Chits

The growth rate in the volume of Chit turnover in KSFE shows fluctuation from 1970-80 to 1990-00. The decade 1970-80 witnessed the highest growth rate. After a fall in it during 1980-90 period, the decade 1990-2000 again shows an increasing tendency mainly due to the diversification of the schemes. The outflow of the Chit foremen to other States to escape from certain provisions of the Kerala Chitties Act, 1975 also resulted in the sluggish growth of the Chit business in Kerala especially in the 1980's. Despite this, it is pertinent to note that in the volume of Chit turnover in Kerala, the highest growth rate (15.01 %) has been recorded during the decade 1990-2000 (See Table 4.3). This perhaps is also a reflection of the success of KSFE in winning the confidence of subscribers and also vindicates its efforts at diversification. The high growth rate for the Chit industry as a whole during 1990-2000 period is mainly due to the faster growth rate in the KSFE Chits.

A comparison of the growth rate of the volume of Chit turnover in Kerala with that of KSFE is presented in Table 4.3. It reveals higher growth rates for KSFE across all periods as compared to the industry (See also Fig. 4.1).

**Table 4.3**  
**Decennial Growth Rate in the Volume of Chits**

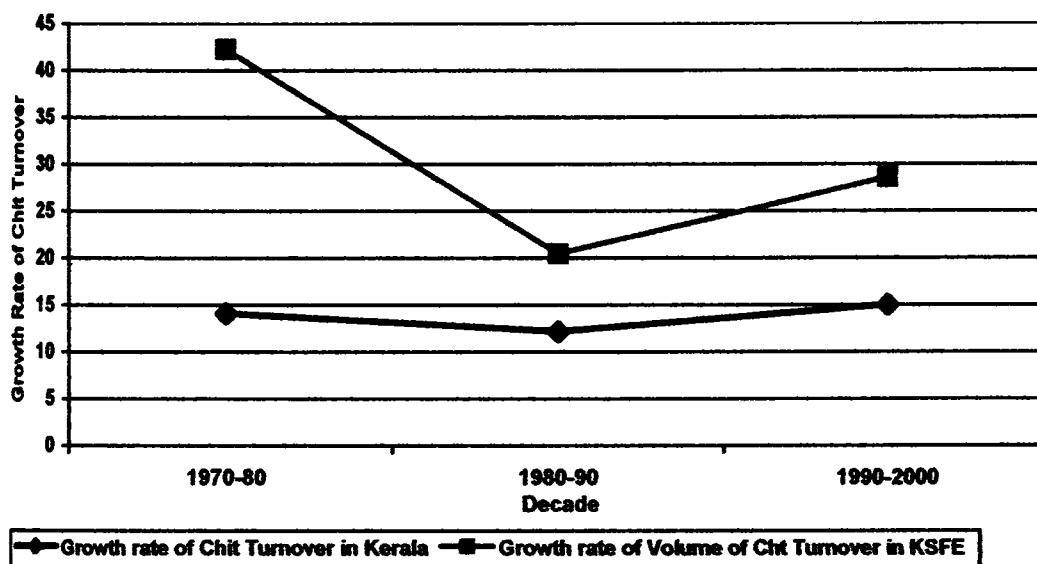
No.	Decade	Growth Rate of Volume of Chit Turnover in Kerala	Growth Rate of Volume of Chit Turnover in KSFE
1	1970-80	14.10	42.25
2	1980-90	12.17	20.43
3	1990-00	15.01	28.58

Source: Computed from Annual Reports, KSFE.



**Figure 4.1**

**Decennial Growth Rate of Chit Turnover in Kerala and KSFE**



**4.7.1.5 Contribution of Chit Scheme to the Total Revenue of KSFE**

The contribution of Chit schemes to the total revenue includes foreman's commission (5 per cent of Chit *sala*), interest on Chit loans, interest on statutory tickets <sup>7</sup> of the Company and the profit on substituted tickets. Table 4.4 presents the actual growth in the total revenue of KSFE, and the contribution of Chit schemes to total revenue over the period from 1970-71 to 2000-01. It also reveals the percentage growth in total revenue and the percentage share of Chit in the total revenue of KSFE

**Table 4.4****Contribution of Chit Scheme to the Total Revenue of KSFE (Rs. Lakhs)**

Year	Total Revenue	Growth Rate	Share of Chit to total revenue	Growth Rate	Percentage Share of Chit to total revenue
1970-71	8	--	2	--	25
1971-72	15	87.50	11	450.00	73
1972-73	31	106.67	23	109.09	74
1973-74	44	41.94	31	34.78	70
1974-75	52	18.18	35	12.90	67
1975-76	68	30.77	45	28.57	66
1976-77	80	17.65	50	11.11	63
1977-78	91	13.75	57	14.00	63
1978-79	105	15.38	64	12.28	61
1979-80	120	14.29	72	12.50	60
1980-81	140	16.67	84	16.67	60
1981-82	158	12.86	90	7.14	57
1982-83	198	25.32	118	31.11	60
1983-84	236	19.19	138	16.95	58
1984-85	279	18.22	165	19.57	59
1985-86	274	-1.79	148	-10.30	54
1986-87	386	40.88	212	43.24	55
1987-88	453	17.36	260	22.64	57
1988-89	570	25.83	316	21.54	55
1989-90	754	32.28	404	27.85	54
1990-91	1022	35.54	496	22.77	49
1991-92	1321	29.26	612	23.39	45
1992-93	1857	40.58	792	29.41	45
1993-94	2509	35.11	1209	52.65	48
1994-95	3504	39.66	1887	56.08	54
1995-96	4679	33.53	2743	45.36	59
1996-97	6588	40.80	3681	34.20	56
1997-98	9876	49.91	6082	65.23	61
1998-99	13810	39.83	8513	39.97	62
1999-00	17006	23.14	10583	24.32	62
2000-01	20491	20.49	12181	15.09	60
Average Annual		31.36		43.00	

Source: Computed from Annual Reports, KSFE

It is seen that the major share of the total revenue of KSFE has been contributed by the Chit scheme from its very inception and forms 60 per cent as of 2000-01. Table 4.4 also reveals that the rate of growth of total revenue of KSFE is directly linked to the rate of growth of the contribution of Chit to total revenue. The average annual growth rate of the share of Chit to total revenue of KSFE was 43 per cent, which is higher than the average annual growth rate (31.4) of total revenue of the Company. Thus it clearly substantiates the tremendous growth potential of its core business.

**Figure 4.2**  
**Growth Rates of Total Revenue of KSFE and contribution of Chit to Total Revenue**

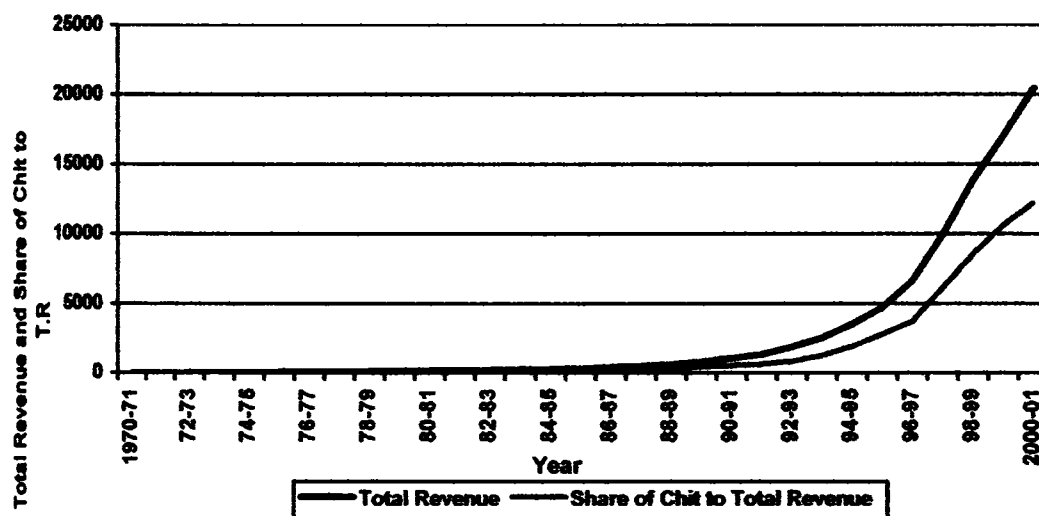


Figure 4.2 clearly shows that the total revenue of KSFE is highly linked to the contribution of the Chit scheme to total revenue.

#### 4.7.1.6 Decennial Contribution of Chit Business to the Total Revenue

The growth rate of total revenue and the growth rate in the contribution of Chit to the total revenue over the decades from 1970-80 to 1990-00 are shown in Table 4.5.

**Table 4.5**

**Decennial Contribution of KSFE Chits to the Total Revenue**

No.	Decade	Growth Rate of Total Revenue	Growth Rate in the Contribution of Chit to the Total Revenue
1	1970-80	38.46	76.14
2	1980-90	20.68	19.64
3	1990-00	36.74	39.34

Source: Computed from Annual Reports, KSFE.

During the decade 1970-80, the growth rate in contribution of Chit to the total revenue has been impressive (76.14%). This may be due to less diversification of schemes. After a fall in the contribution during 1980-90, the contribution again has increased to 39.34 per cent during 1999-00.

Though the advance aspect has been built into the *Chitty* scheme, the element of luck existing in it, forces a subscriber to wait for some time to avail himself of the benefit of getting the ticket prized. The Chit scheme also provides additional facilities like eligibility for availing of passbook loan and new *Chitty* loan. *Chitty* loan also known as passbook loan has been introduced to help the subscribers to meet their immediate need before getting the ticket prized. The KSFE has two such schemes, viz., Passbook loan and New *Chitty* loan.

**4.7.1.7 Passbook Loan (*Chitty* Loan)**

The purpose of passbook loan (original *Chitty* loan) is to provide quick loan facility to non-prized subscribers to meet their urgent needs, on the security of paid up subscriptions in the Chits. Chit subscribers who have made up-to-date remittance in unencumbered Chits are eligible for passbook loan. The passbook of the subscriber is the security for this advance and the ceiling of which is based on the amount paid up in the respective *Chitty*. The rate of interest charged on such loans has been at 15 per cent (monthly compounding) as on 11-12-2002.

**Table 4.6**  
**Magnitude of Passbook Loan of KSFE (Rs. Lakhs)**

Year	Loan Outstanding	Growth Rate	Index of Growth of Loan Outstanding	No. of Accounts	Growth Rate	Index of Growth of No. of Accounts
1990-91	.04	-	-	-	-	-
1991-92	18	-	-	-	-	-
1992-93	33	-	-	-	-	-
1993-94	134	-	100	765	-	100
1995-95	144	7.5	107	1365	78.4	178
1995-96	213	48.0	159	1616	18.4	211
1996-97	340	59.6	254	1940	20.0	254
1997-98	526	54.7	393	2600	34.0	340
1998-99	620	17.9	463	3014	15.9	394
1999-00	714	15.2	533	3547	17.7	464
2000-01	1564	119.0	1167	6685	88.5	874

Note: The base year for the index has been taken as 1993-94 mainly due to the negligible loan amount prior to that period.

Source: Annual Reports, KSFE.

Table 4.6 reveals that there has been an increase of about 11.67 times in total passbook loan advances outstanding showing an increase from Rs.134 Lakhs in 1993-94 to Rs.1,564 Lakhs in 2000-01. It also shows that there has been an increase of about 8.7 times in the number of accounts of passbook loan during the above period. The annual growth rate of loan amount and the number of accounts are seen to be higher during 2000-01 (119 per cent, and 88.5 per cent respectively) when compared to the previous years. This has been due to the comparatively low growth rate of New Chitty loan with the stringent eligibility norms. (See Table 4.7) But despite the growth rate in loans outstanding and number of accounts, the contribution of the passbook loan to the total revenue of the Company also seems negligible and forms only 0.71 per cent as on 2000-01 (See Table 4.25).

#### 4.7.1.8 New Chitty Loan

During the year 1993-94, the Company launched a new scheme (New Chitty Loan) of finance up to 50 per cent of *Chitty sala* to non-prized

subscribers. This new scheme was introduced without terminating the original Chitty loan (Passbook Loan) and hence the name New Chitty Loan. The subscribers of Chits become eligible for availing themselves of NCL immediately on the conduct of the first auction. The loan amount may also be restricted depending on the duration of Chit. The subscriber can avail himself of NCL on all his tickets in a Chit, subject to a maximum of 10 per cent of the total tickets in the Chit.

Table 4.7 reveals that there has been an increase of about 17.6 times in New Chitty loan advances outstanding showing an increase from Rs.1,979 Lakhs in 1993-94 to Rs.34,875 Lakhs in 2000-01. It also shows a 9.9 times increase in the number of accounts of NCL for the period mentioned above. The growth rate of NCL from 1999-00 has not been impressive mainly due to the introduction of the stringent eligibility norms on account of its high default rate.

**Table 4.7**  
**Magnitude of New Chitty Loan of KSFE (Rs. Lakhs)**

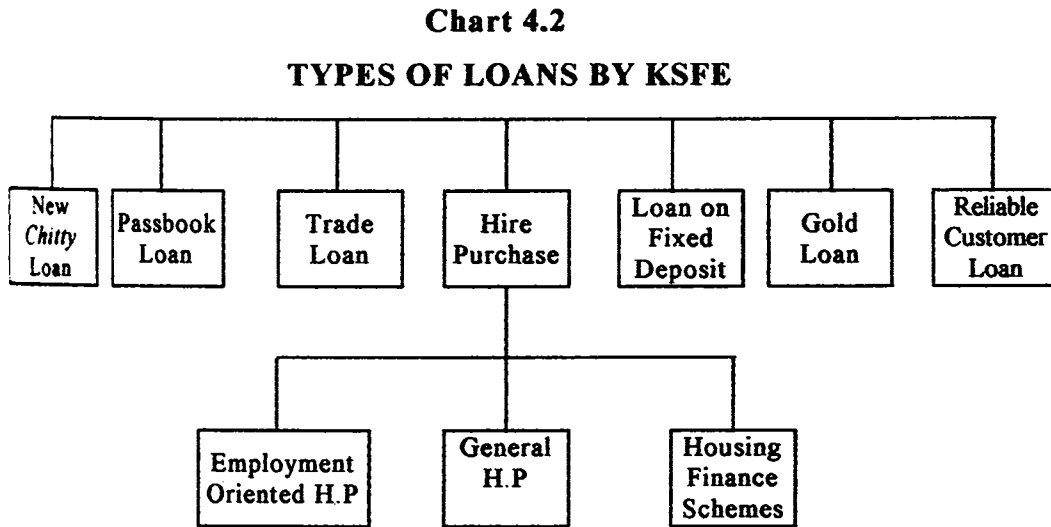
Year	Loan Outstanding	Growth rate of Loan Outstanding	Index of Growth of Loan Outstanding	No. of Accounts	Growth rate	Index of Growth of No. of Accounts
1993-94	1979	-	100	7566	-	100
1994-95	4119	108.1	208	13791	82.3	182
1995-96	5957	44.6	301	18146	31.6	240
1996-97	9329	56.6	471	23957	32.0	317
1997-98	23374	150.1	1181	48178	101.1	637
1998-99	32429	38.7	1639	68370	41.9	904
1999-00	31453	-3.0	1589	72901	6.6	964
2000-01	34875	10.9	1762	74855	2.7	989

Source: Annual Reports, KSFE.

There is an impressive growth in the volume of New Chitty Loan. This has been substantiated by the contributions of the scheme (27.15%) to the total revenue of the Company (See Table 4.25)

## 4.7.2 Types Of Loans By KSFE

KSFE with its multifarious objectives has come out with various types of loans to suit different groups. An attempt has been made to evaluate the channelisation of funds. Chart 4.2 describes various types of loans available from KSFE.



### 4.7.2.1 Hire Purchase (HP)

Hire Purchase is a system by which something becomes the property of the person after a number of agreed payments called 'hire-rent' have been made. With the object of providing advance facilities for acquisition of consumer durables, the Company offers hire purchase facilities for owning motor vehicles and home appliances such as television, refrigerator, two-wheeler, furniture, etc. at varying rates of interest and on easy repayment plans. The KSFE started the pilot project of its Hire Purchase scheme from the Head Office in December 1970. The pilot project having proved a success, KSFE extended the HP Scheme to the branches with the inclusion of low value domestic utility articles like radio, fan, sewing machine, etc. For reviving the HP scheme, KSFE has entered into a financial tie-up with the market leaders of white goods and two wheelers at 14 per cent interest, (diminishing) with effect from 11-12-2002. The financial tie-up has been made with the KSFE and the manufacturer. Special feature of the tie-up scheme is that the Company is entering into contracts with the authorised

dealers through the manufacturers for ensuring the genuineness of the transaction and preventing the misuse of the Company's application forms entrusted to the dealers. Under this arrangement the dealers have been empowered to canvass customers, issue application forms, collect the completed forms back along with surety papers, registration fee, scrutiny fee, etc., for submitting the same to the nearest branch office of the Company. Performance details of the scheme are given in Table 4.8.

#### 4.7.2.2 Employment Oriented Hire Purchase Scheme (EPOHPS)

During the year 1987-88 the Company introduced a new Hire Purchase Scheme in partial fulfilment of its social objective, for generating employment opportunities to the jobless youth in the State. The scheme known as the Employment Oriented Hire Purchase Scheme (EPOHPS) envisaged supplying of tools and equipments under HP Scheme, which has a thrust in the creation of employment opportunities at a lower rate of interest (9 per cent flat). Table 4.8 gives the magnitude of Hire Purchase Loan (General) and the Employment Oriented Hire Purchase Loan during the last 11 years period from 1990-91 to 2000-01.

**Table 4.8**  
**Magnitude of Hire Purchase Schemes (Rs. Lakhs)**

Year	H P Loan Outstanding - (General)			EPOHPS			Total HP Advances		
	Amount	Growth Rate	Index of growth	Amount	Growth Rate	Index of growth	Amount	Growth Rate	Index of growth
1990-91	1963	-	100	269	-	100	2232	-	100
1991-92	2583	32	132	300	12	112	2883	29	129
1992-93	2976	15	152	265	-12	99	3251	13	146
1993-94	3451	16	176	195	-26	72	3646	12	163
1994-95	3366	-2	171	119	-39	44	3485	-4	156
1995-96	3904	16	199	84	-29	31	3988	14	179
1996-97	5052	29	257	69	-18	26	5121	28	229
1997-98	5657	12	288	56	-19	21	5713	12	256
1998-99	6212	10	316	-	-	-	6212	9	278
1999-00	5325	-14	271	-	-	-	5325	-14	239
2000-01	6615	24	337	-	-	-	6615	24	296
Average Annual		13.8			-18.7			12.3	

Source: Annual Reports, KSFE.



The above Table depicts an increase of more than 3 times in HP advances showing an increase from Rs.2,232 Lakhs in 1990-91 to Rs. 6,615 Lakhs in 2000-01. Hire Purchase (General) constitutes a higher share in total HP advances. The share of H P (General) in the total H P advances was 88 per cent in 1990-91 and that of EPOHPS was only 12 per cent. The share of EPOHPS shows a declining trend and formed only 0.98 per cent of the total HP advances in 1997-98 and thereafter the scheme was terminated due to its less acceptability. The contribution of the HP schemes to the total revenue of the Company forms only 4.96 per cent as on 2000-01(See Table 4.25). But the average annual growth rate shows an impressive increase (24 per cent) in 2000-01, when compared to the previous years.

#### **4.7.2.3 House Finance Schemes**

The Company introduced the 'House Modernisation Scheme' (HMS) under hire purchase financing in the year 1978. This scheme was intended to provide financial assistance to the middle and low-income groups for construction involving extension and modifications. KSFE has been operating two separate schemes under housing, one for extension, modernisation, etc. styled as house modernisation scheme, and the other for new constructions, named as New Housing Finance Scheme (NHFS). The purpose of NHFS introduced in November 1995 is for the purchase of residential plots and residential houses and for the construction of residential houses. In 1999, the HMS was merged with New Housing Finance Scheme. The rate of interest charged was 13.5 per cent (yearly diminishing) for loans upto Rs.5 Lakhs and 14 per cent for loans above Rs.5 Lakhs and upto Rs.10 Lakhs as on 11-12-2002. Table 4.9 shows the magnitude of house finance scheme of the Company.

**Table 4.9**  
**Magnitude of House Finance Schemes (Rs. Lakhs)**

Year	Housing Finance Scheme	Growth Rate	Index of Growth
1992-93	190	-	100
1993-94	218	15	115
1994-95	446	105	235
1995-96	853	91	449
1996-97	3452	305	1817
1997-98	3930	14	2068
1998-99	4343	11	2286
1999-00	4129	-5	2173
2000-01	4350	5	2289
AAG		67.63	

*Source: Annual Reports, KSFE*

There has been an increase of about 22.9 times in HFS advances outstanding showing an increase from Rs.190 Lakhs in 1992-93 to Rs.4,350 Lakhs in 2000-01. The annual growth rate of HFS after 1996-97 seems to be less impressive. The contribution of the House Finance Schemes forms only 3.3 per cent to the total revenue of the Company as on 2000-01 (See Table 4.25).

#### **4.7.2.4 Trade Financing Scheme (TFS)**

During the year 1992-93, the Company launched a new scheme called Trade Financing Scheme (TFS) to finance small and medium size business group including stamp vendors, lottery agents and the like for supplementing their working capital requirements. The loanee should have been engaged in a business, the annual sales turnover of which does not exceed Rs.50 Lakhs. Advance has been restricted to 75 per cent of the working capital gap. The loan amount has been limited to Rs.10 Lakhs for traders and businessmen, Rs.1 Lakh for vendors and Rs.10,000 for lottery agents. The rate of interest has been 8.5 per cent (flat) irrespective of the quantum of loan.

However, the contribution of the scheme to the total revenue of the Company is only 1.1 per cent as on 2000-01 (See Table 4.25). Though its contribution is negligible, the continuation of the scheme may help to fulfil the social objective of KSFE. The Table 4.10 gives the magnitude of Trade Financing Loan.

#### **4.7.2.5 Gold Loan Scheme**

This scheme has been intended to provide short-term loan facility to people who are urgently in need of money, on the security of gold. Gold loan business, which started during 1989-90 gathered momentum in 1990-91. Maximum loan amount in this scheme has been limited to Rs.1 Lakh per individual and the period of loan is 12 months maximum. The Table 4.10 gives the magnitude of the gold loan scheme. The contribution of the scheme to the total revenue of the Company forms only 0.69 per cent as on 2001. (See Table 4.25)

#### **4.7.2.6 Loan on Fixed Deposits**

The scheme of loan on Fixed Deposit is intended to provide quick loan facility to depositors on the basis of their fixed deposits. 75 per cent of the F.D amount free of any liability can be availed of as loan. This scheme, started during 1989-90 picked up speed considerably in 1990-91. During the year 1995-96, another new scheme called New Fixed Deposit Loan Scheme was started to provide short-term loans to government employees, employees of KSFE and employees of other institutions approved by the Company. The loan limit is Rs.50,000 or ten times the net salary of the applicant. The interest chargeable on FD loan is 2 per cent above the rate applicable to the FD on which such loan is granted. The magnitude of F D Loan, Trade Loan and Gold Loan are shown in Table 4.10.

**Table 4.10****Magnitude of F D Loan, Trade Loan and Gold Loan (Rs. Lakhs)**

Year	F.D Loan Outstanding			T.F.S Loan Outstanding			Gold Loan Outstanding		
	Amount	Growth Rate	Index of growth	Amount	Growth Rate	Index of growth	Amount	Growth Rate	Index of growth
1990-91	10	-	100	-	-	-	79	-	100
1991-92	26	160	260	-	-	-	125	58	158
1992-93	36	38	360	54	-	100	129	3	163
1993-94	85	136	850	111	106	206	144	12	182
1994-95	150	76	1500	303	173	561	212	47	268
1995-96	773	415	7730	819	170	1517	392	85	496
1996-97	1734	124	17340	1616	97	2993	502	28	635
1997-98	3232	86	32320	1791	11	3317	587	17	743
1998-99	6923	114	69230	1839	3	3406	537	-9	680
1999-00	5770	-17	57700	1765	-4	3269	548	2	694
2000-01	4860	-16	48600	1512	-14	2800	2017	268	2553
AAG		112			68			51	

Source: Annual Reports, KSFE.

Table 4.10 reveals that there has been an increase of about 486 times in total Fixed Deposit Loan and New Fixed Deposit Loan scheme showing an increase from Rs.10 Lakhs in 1990-91 to Rs.4860 Lakhs in 2000-01. But the loan outstanding shows a fall in 2000-01 to Rs.4860 from Rs.5770 in 1999-2000 and the annual growth rate becomes negative. The contribution of the scheme to the total revenue of the Company forms 4.2 per cent as on 2001 (See Table 4.25).

Table 4.10 also shows that there was an increase of about 28 times in Trade Finance Loan, showing an increase from Rs.54 Lakhs in 1992-93 to Rs. 1,512 Lakhs in 2000-01. The Trade loan outstanding as on 1999-00 and 2000-01 shows a decline as compared with the previous year.

With regard to Gold loan the Table shows that there was an increase of 25.53 times in total gold loan showing an increase from Rs.79 Lakhs in 1990-91 to Rs.2,017 Lakhs in 2000-01. The scheme showed tremendous growth in 2000-01 when compared to the earlier years. This has

been due to the decline in rate of interest (12 per cent as on 11-12-2002), system of charging interest on diminishing and quarterly compounding basis and the interest being calculated only for the exact number of days in pledge.

#### **4.7.2.7 Reliable Customer Loan (RCL)**

This is the name for the New Fixed Deposit Loan Scheme started during the year 1999-2000. The maximum amount of loan is Rs.25,000. All the customers of KSFE, with a good track record, for one year or more are eligible for the RCL provided they are not defaulters at the time of applying for the loan. The minimum and maximum period of the loan is 12 months and 48 months respectively. Interest rate is 11 per cent on yearly diminishing basis. The loan outstanding as on 31-3-2001 stood at Rs. 4,557 Lakhs as against Rs. 5,770 Lakhs in 31- 3 2000.

#### **4.7.3 Deposit Schemes**

The Company is primarily in the business of mobilising savings. Its efforts have mostly been directed at the households sector and its main instruments have been conducting of Chits and financing purchases of household durables through hire purchase schemes. Greater efforts for mobilisation of savings are necessary to consolidate the gains of the economic momentum evident in the economy. KSFE raises deposits from public by way of term deposits, *Sugama* deposits and deposit of money in trust, in order to meet its working capital requirement and for hire purchase financing. As KSFE cannot raise public deposits in excess of the limit prescribed in the Companies Act, <sup>8</sup> Government guarantee is taken, whenever deposits are to be raised in excess of the prescribed limit. The growth in Fixed Deposit, *Sugama* and *Bhadra* schemes have been analysed in this section for the period 1990-91 to 2000-01.

##### **4.7.3.1 Fixed Deposit Scheme**

The Government has authorised KSFE as a financial intermediary to mobilise as term deposits from the public with Government guarantee for

repayment of principal and interest. At present, KSFE accepts fixed deposits for periods ranging from 1 to 5 years. The rate of interest offered for the scheme is 8 per cent as on 11-12-2002, with monthly payment of interest. Fixed Deposit generated from the prize money of Chits and offered as security towards the future liability of Chits, carry an interest of 8.5 per cent. Loan facility on F.D has been provided to the depositors, which is equal to 75 per cent of the deposit. There was an increase of about 37.6 times in total fixed deposits from public showing an increase from Rs.2,080 Lakhs in 1990-91 to Rs. 78,230 Lakhs in 2000-01 (See Table 4.11). The comparative higher return and the higher average annual growth rate make the performance of the scheme satisfactory for the period under review.

#### **4.7.3.2 *Sugama* Deposit Scheme**

The scheme aims at providing a deposit facility, similar in many ways to Savings Bank Accounts in banks, but without the Cheque facility. The scheme envisages periodical remittance of any amount and withdrawal from the account maintained with the Company. The scheme helps the customers in the following manner: -

1. The customers can give standing instructions to the Company to transfer the monthly instalments from the *Sugama* account towards *Chitty*, HP, HMS, etc. on due dates.
2. Interest on Fixed Deposit can be transferred to this account as and when it becomes due.
3. Any person known to the Company may open an account. Withdrawals from the account shall be made with the forms or slips supplied by the Company. Depositors will be provided with 6 per cent interest on the minimum balance maintained as on 11-12-2002. The *Sugama* Deposit Scheme registered an increase of about 21.70 times, from Rs. 457 Lakhs in 1990-91 to Rs. 9,918 Lakhs in 2000-01 (See Table 4.11). The high annual average growth of the *Sugama* deposit scheme and also its better

return in comparison with similar deposit schemes of banks make its performance satisfactory for the period under review.

#### 4.7.3.3 *Bhadratha* Social Security Scheme

*Bhadratha* was a social security scheme of the Government of Kerala operated by KSFE with effect from 1-11-1977. The agency-charges payable to KSFE was fixed at 5 per cent. The scheme was launched with the dual purpose of mobilising savings from the public on a very large scale and providing benefits to the subscribers of the scheme in the form of pension, lump-sum amount or both.

The *Bhadratha* social security scheme implemented through KSFE as per Government Order No. 108/77 TD dated 28<sup>th</sup> September 1977 became virtually defunct. The government of Kerala, therefore decided to revive the scheme in order to make it more attractive to the depositors vide GO (MS) No.24/88/TD dated 2<sup>nd</sup> March 1988. The revised scheme also was operated by the Company as agent of the Government of Kerala on a commission basis. Deposits were accepted in lump-sum amount of Rs.100 and its multiples for a period of 60 months. The scheme provided facility for premature closure also after a period of 3 years from the date of deposit. The deposits got doubled over a period of 5 years. However the Company discontinued the collection of deposits under the *Bhadratha* social security scheme with effect from 1-4-1994 due to the change in the policy decision of the Government of Kerala to wind up the scheme. The *Bhadratha* Deposit Scheme showed declining trend from Rs.4,883 Lakhs in 1990-91 to Rs. 3,341 Lakhs in 1993-94. The account shows a net credit balance of Rs.11,45,143 pending reconciliation.

Table 4.11 also reveals a very high average annual growth rate in the deposits mobilised by KSFE with Fixed Deposit and *Sugama* at 44 per cent. This rate, it may be noted, is much higher than the average annual growth rate of the total deposits (19%) by the banks.

**Table 4.11**  
**Magnitude of Fixed Deposit, Sugama and Bhadratha (Rs. Lakhs)**

Year	Fixed Deposit (FD)			Sugama Deposit (SD)			Bhadratha Scheme (BS)			Total of F.D and Sugama			Total Bank Deposit (TBD)			Total of F. D and Sugama as percentage of Bank Deposit	
	2		3		4		5			6			7				
	FD	GR	IGR	SD	GR	IGR	BS	GR	IGR	Total	GR	IGR	TBD	GR	IGR	Percentage	
1990-91	2080	-	100	457	-	100	4883	-	100	2537	-	100	785800	-	100	0.32	
1991-92	3131	51	151	719	57	157	5056	4	104	3850	52	152	967100	23	123	0.40	
1992-93	4478	43	215	707	-2	155	5208	3	107	5185	35	204	1211200	25	154	0.43	
1993-94	6146	37	295	1103	56	241	3341	-36	68	7249	40	286	1494100	23	190	0.49	
1994-95	9253	51	445	1308	19	286	-	-	-	10561	46	416	1745800	17	222	0.60	
1995-96	13809	49	664	1565	20	342	-	-	-	15374	46	606	2017100	16	257	0.76	
1996-97	24842	80	1194	2045	31	447	-	-	-	26887	75	1060	2335400	16	297	1.15	
1997-98	40283	62	1937	3643	78	797	-	-	-	43926	63	1731	2755200	18	351	1.59	
1998-99	59639	48	2867	5631	55	1232	-	-	-	65270	49	2573	3153200	14	401	2.07	
1999-00	67133	13	3228	8667	54	1896	-	-	-	75800	16	2988	3861900	22	491	1.96	
2000-01	78230	17	3761	9918	14	2170	-	-	-	88148	16	3474	-	-	-	-	
AAG											44			19			

Source 1: Annual Reports, KSFE. G R = Growth Rate I G R = Index Growth Rate

Source 2: Economic Review, various Years, Government of Kerala, State Planning Board, Trivandrum.



## **4.8 PERFORMANCE EVALUATION OF KSFE**

Performance is a multi-dimensional concept. The best indication that a firm enjoys a competitive advantage would be high performance across a number of different performance parameters over a number of years.

The performance of KSFE has been analysed on the basis of the following parameters:

1. Market Share of KSFE Chit in the formal Chit business in Kerala.
2. Growth in the volume of business over the years.
3. Benefits to the Government of Kerala – the owner of the Company.
4. Profitability and Financial performance
5. Market outreach, productivity per employee and per branch and scheme-wise performance.
6. Recovery performance.

### **4.8.1 MARKET SHARE**

Market share is an important performance measure; especially in industries in which important advantages can be derived from large size i.e. economies of scale, and market control. Table 4.12 clearly shows the dominance of KSFE in Chit business in the formal sector in Kerala.

**Table 4.12**

**Market Share of KSFE in Chit Business in Kerala (Rs. Lakhs)**

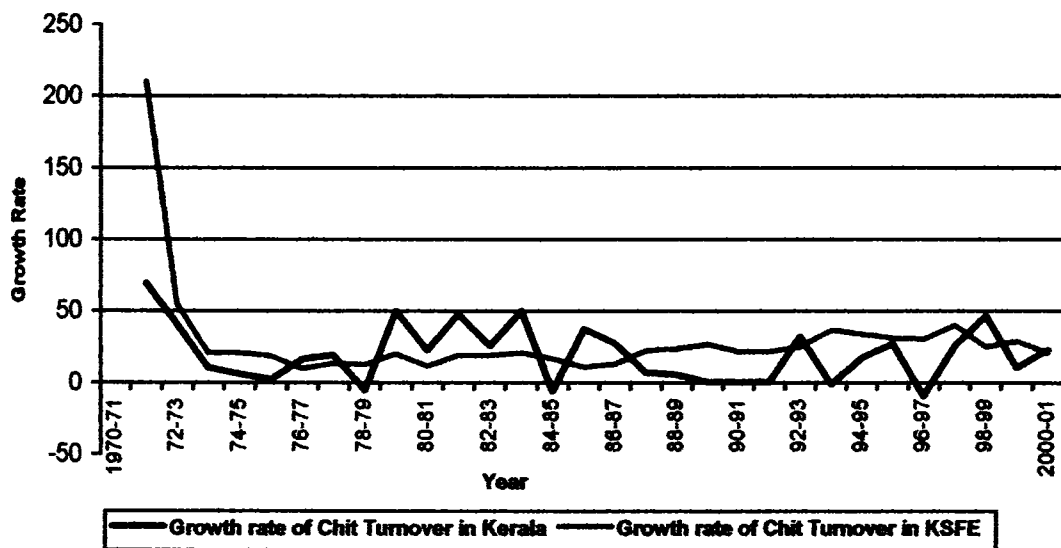
Year	Aggregate Chit Turnover and Growth Rate in Kerala		Aggregate Chit Turnover and Growth Rate in KSFE		Market Share of KSFE Chits in the Total Chit Business in Kerala. Percentage
	Turnover	Growth Rate	Turnover	Growth Rate	
1970-71	7836	-	120	-	1.5
1971-72	13272	69.37	372	210.00	2.8
1972-73	18708	40.96	576	54.84	3.1
1973-74	16776	10.33	696	20.83	4.1
1974-75	17748	5.79	840	20.69	4.7
1975-76	18117	2.08	996	18.57	5.5
1976-77	15174	16.24	1092	9.64	7.2
1977-78	12240	19.34	1236	13.19	10.1
1978-79	11604	-5.20	1392	12.62	11.9
1979-80	17436	50.26	1668	19.83	9.6
1980-81	21384	22.64	1860	11.51	8.7
1981-82	11112	48.04	2208	18.71	19.9
1982-83	13932	25.38	2628	19.02	18.9
1983-84	20940	50.30	3168	20.55	15.1
1984-85	19656	-6.13	3696	16.67	18.8
1985-86	27030	37.52	4092	10.71	15.1
1986-87	34404	27.28	4620	12.90	13.4
1987-88	36780	6.91	5640	22.08	15.3
1988-89	38808	5.51	6972	23.62	17.9
1989-90	38964	0.40	8832	26.68	22.7
1990-91	39120	0.40	10740	21.60	27.5
1991-92	39264	0.37	13056	21.56	33.3
1992-93	51936	32.27	16344	25.18	31.5
1993-94	51312	-1.20	22320	36.56	43.5
1994-95	60144	17.21	29868	33.82	49.7
1995-96	76524	27.23	39192	31.22	51.2
1996-97	69396	-9.31	51048	30.25	73.6
1997-98	87444	26.01	71412	39.89	81.7
1998-99	128472	46.92	89052	24.70	69.3
1999-00	141588	10.21	114828	28.94	81.1
2000-01	174276	23.09	138524	20.64	79.4
AAG		13.74		29.23	

Source: Annual Reports, KSFE

The market share of KSFE in its infancy remained insignificant up to 1975-76, and this can be considered as a period of dominance of Private Chit Funds. But from 1976-77 onwards the share of KSFE Chits shows a continuously increasing growth rate. The market share of KSFE Chits in the total Chit turnover in Kerala has made impressive progress from 1993-94 and from 1995-96 onwards it has been more than 50 per cent and in more recent years it is nearly 80 per cent. The introduction of the New *Chitty* Loan especially enhanced the volume of business and acted as a stimulus to the Chit business of the Company since 1993-94. It must be pointed out that the above figures take into account only the turnover from the registered sector (formal). Hence the huge volume of business prevailing in the private sector and informal sector indicates the necessity and great potential for further expansion of KSFE Chits. Figure 4.3 shows the rate of growth of Chit Turnover in Kerala and in KSFE.

**Figure 4.3**

**The Rate of Growth of Chit Turnover in Kerala vis a vis KSFE**



The rate of growth of Chit turnover in the Chit Fund industry in the State shows fluctuations when compared to that of KSFE. It also reveals higher growth rate for KSFE in the nineties.

Figure 4.4 shows the market share of KSFE Chits in the total Chit business in Kerala.

**Figure 4.4**  
**Market Share of KSFE**

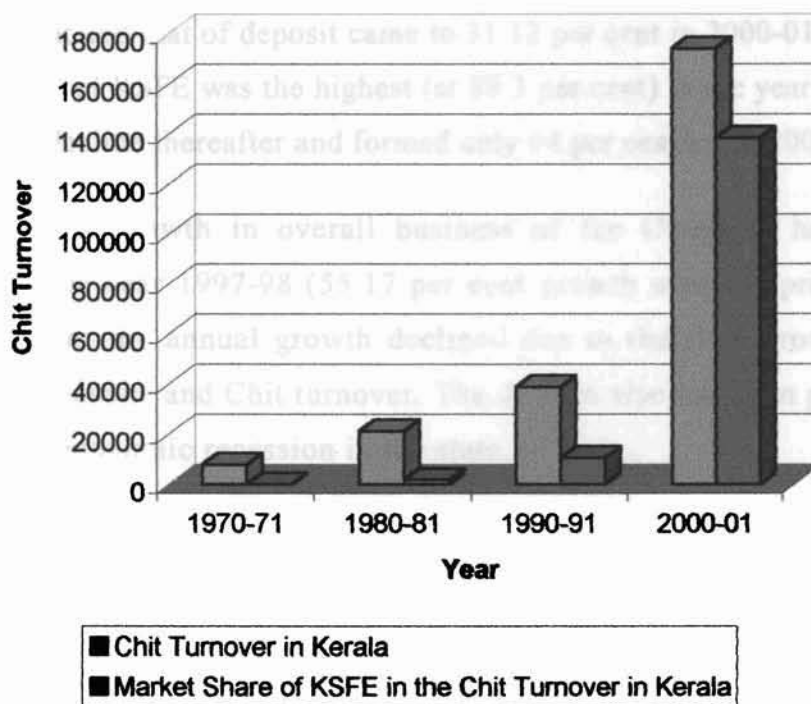


Figure 4.4 reveals that the market share of KSFE Chits in the total Chit business in Kerala increased from 1.5 per cent in 1970-71 to 8.7 per cent in 1980-81, to 27.5 per cent in 1990-91 and to 79.4 per cent in 2000-01. Thus it shows impressive growth of the market share of KSFE Chits in the total Chit business in the State.

#### 4.8.2 GROWTH IN THE VOLUME OF BUSINESS

Total business includes annual *Chitty* turnover and outstanding of other schemes. Table 4.13 shows that, there has been 13.8 times increase in the growth of business of KSFE showing an increase from Rs.204.80 Crore in 1990-91 to Rs.2,831.05 Crore in 2000-01. The annual *Chitty* turnover constituted the major component in the total business of KSFE, which varied from Rs.107.39 Crore in 1990-91 to Rs.1,385.24 Crore in 2000-01 and ranged from 43 per cent to 61 per cent during the period.

Table 4.13 also reveals that there has been 24.3 times increase in the total advances by KSFE showing an increase from Rs.23.21 Crore in 1990-91 to Rs.564.3 Crore in 2000-01. It also shows that the growth of deposits increased from Rs.74.2 Crore in 1990-91 to 881.5 Crore in 2000-01. The share of Chits in the total business of the Company formed 48.9 per cent, the share of advances 19.9 per cent and that of deposit came to 31.12 per cent in 2000-01. The credit-deposit ratio of KSFE was the highest (at 89.3 per cent) in the year 1997-98 but recorded a decline thereafter and formed only 64 per cent as on 2000-01.

The growth in overall business of the Company has been the highest in the year 1997-98 (55.17 per cent growth over the previous year) and thereafter the annual growth declined due to the slow growth rates of advances, deposits and Chit turnover. The decline also has been partly due to the general economic recession in the state.

**Table 4.13**  
**Growth Trends of Business from 1990-91 to 2000-01 (Rs. Lakhs)**

Sl no.	Items	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	AAG
1	Annual Chitry turnover (Sala x 12)	10739 (100)	13051 (122)	16350 (152)	22319 (208)	29867 (278)	39194 (365)	51043 (475)	71407 (665)	89057 (829)	114825 (1069)	138525 (1290)	
	Growth Rate	-	21.53	25.28	36.51	33.82	31.23	30.23	39.90	24.72	28.93	20.6	29.28
2	Total advance (loans of all types)	2321 (100)	3035 (131)	3460 (149)	5961 (257)	8270 (356)	12697 (547)	21688 (934)	39228 (1690)	55282 (2382)	54736 (2358)	56430 (2431)	
	Growth Rate	-	30.76	14.00	72.28	38.74	53.53	70.81	80.87	40.92	-0.99	3.09	40.40
3	Total deposits (FD + Sugama + other deposits)	7420 (100)	8906 (120)	10391 (140)	10590 (143)	10561 (142)	15374 (207)	26887 (362)	43944 (592)	64818 (874)	75362 (1016)	88150 (1188)	
	Growth Rate	-	20.03	16.67	1.92	-0.27	45.57	74.89	63.44	47.50	16.27	16.97	30.30
4	Total business (1+2+3)	20480 (100)	24992 (122)	30201 (147)	38870 (190)	48698 (238)	67266 (328)	99618 (486)	154580 (754)	209156 (1021)	244923 (1196)	283105 (1382)	
	Growth Rate	-	22.03	20.84	28.70	25.28	38.13	48.10	55.17	35.31	17.10	15.59	30.63
5	Relative Share of Chit to Total Business	52.4	52.2	54.1	57.4	61.3	51.3	51.2	46.2	42.6	46.9	48.9	
6	C.D Ratio	31.3	34.1	33.3	56.3	78.3	82.6	80.7	89.3	85.3	72.6	64	

Source: Annual Reports of KSFE for various years.  
Figures in parenthesis show the index of growth

### 4.8.3 Benefits To The Government

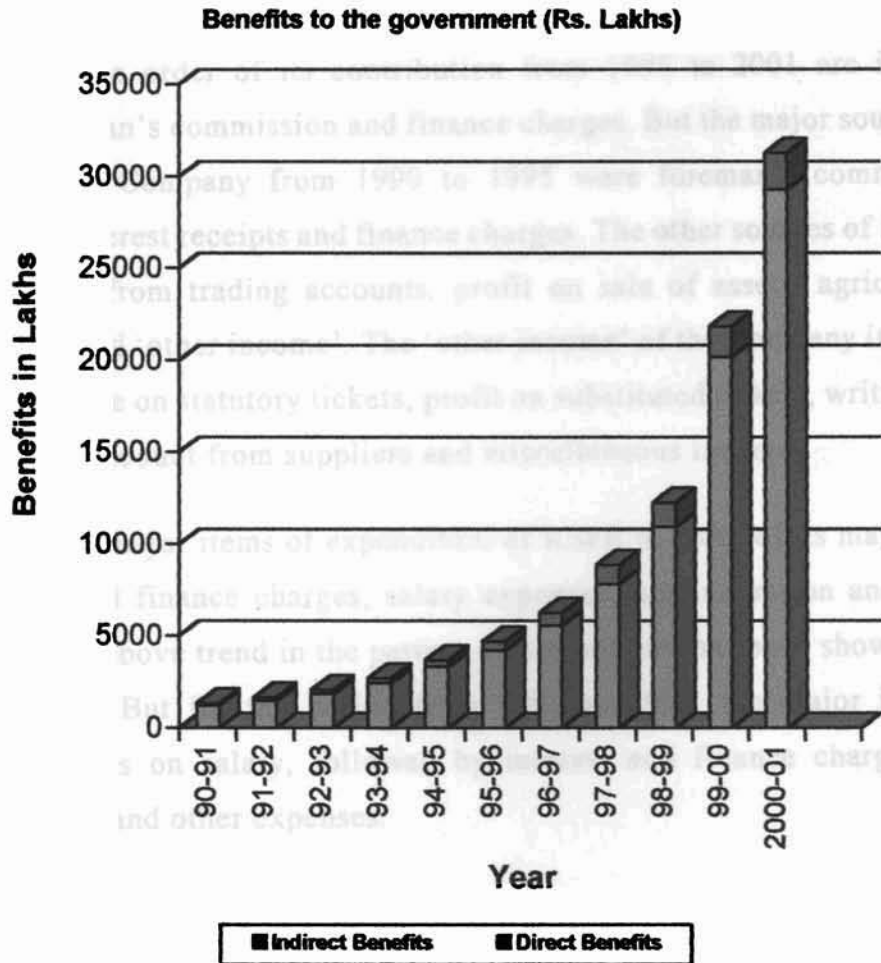
The direct benefits from KSFE to the owner, ie the Government of Kerala, are in the form of service charges, guarantee commission and registration and filing fees. In the case of direct benefits to the Government, an increase of 21.1 times over the above period (1990-91 to 2000-01) is noteworthy. The indirect benefits to the Government are in the form of *Chitty* security deposit with the Treasury and Savings Bank Account and other deposits with the Treasury. It shows a 23.9 times increase in the benefits from Rs.1,225 Lakhs in 1990-91 to Rs.29,258 Lakhs in 2000-01. Table 4.14 also reveals that there has been 23.7 times increase in the total benefits accruing to the Government of Kerala from Rs.1,319 Lakhs in 1990-91 to Rs.31,249 Lakhs in 2000-01. Besides, the Board of Directors has announced a Dividend of 20 per cent for the year 2000-2001.

**Table 4.14**  
**Benefits to the Government (Rs. Lakhs)**

Direct Benefits	Year										
	90-91	91-92	92-93	93-94	94-95	95-96	96-97	97-98	98-99	99-00	2000-01
1. Service Charges	49	91	119	152	196	236	302	389	493	588	803
2. Guarantee Commission	26	38	52	72	106	154	269	439	651	758	884
3. Registration and Filing Fee	19	25	32	45	58	91	130	207	212	283	304
4. Total (A)	94	154	203	269	360	481	701	1035	1355	1629	1991
<b>Indirect Benefits</b>											
1. Chitty Security Deposit	1187	1464	1797	2344	3083	4058	5397	7608	9482	11856	14743
2. Savings Bank Account	38	25	66	86	235	144	159	117	279	796	826
3. Other deposits with treasury	-	-	-	-	-	-	-	102	1150	7528	13689
4. Total (B)	1225	1489	1863	2430	3318	4202	5556	7827	10911	20180	29258
<b>TOTAL (A+B)</b>	<b>1319</b>	<b>1643</b>	<b>2066</b>	<b>2699</b>	<b>3678</b>	<b>4683</b>	<b>6257</b>	<b>8868</b>	<b>12266</b>	<b>21809</b>	<b>31249</b>

Source: Annual Reports, KSFE

**Figure 4.5**



The Figure 4.5 reveals that both the direct and indirect benefits offered by the Company to the Government is continuously increasing for the period under review. But the increase in the indirect benefit is much greater when compared to the increase in direct benefit generated by the Company.

#### **4.8.4 Profitability**

The trends in income and expenditure of the Company, working results and its profitability are shown in the following Tables 4.15 and 4.16 respectively. The pursuit of profitability has been seen as a means of stimulating managerial and technical efficiency. Further the net contribution that KSFE makes to the Government depends, entirely on its surplus. The



annual growth rate of income, expenditure and hence profit show fluctuations for the period 1990-91 to 2000-01.

As shown in Table 4.15, the major sources of income of the Company in the order of its contribution from 1995 to 2001 are interest receipts, foreman's commission and finance charges. But the major sources of income of the Company from 1990 to 1995 were foreman's commission followed by interest receipts and finance charges. The other sources of income are the profit from trading accounts, profit on sale of assets, agricultural income, rent and 'other income'. The 'other income' of the Company includes dividend income on statutory tickets, profit on substituted tickets, writing and scrutiny fee, discount from suppliers and miscellaneous income.

The major items of expenditure of KSFE in order of its magnitude are interest and finance charges, salary expenses, administration and other expenses. The above trend in the pattern of expenditure has been shown from 1995 to 2001. But for the period from 1990 to 1994, the major item of expenditure was on salary, followed by interest and finance charges and administration and other expenses.

**Table 4.15 Details of Income and Expenditure of KSFE from 1990-91-2000-01 (Rs. Lakhs)**

ITEMS	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
<b>1. Income</b>											
Foreman's Commission	469.4 (45.9)	573.1 (41.8)	715.1 (38.5)	946.2 (37.4)	1277.6 (36.5)	1677.8 (35.9)	2178.3 (33.0)	3060.4 (31.0)	3945.8 (28.6)	4835.6 (28.4)	5410.3 (26.4)
Finance Charges	223.8 (21.9)	332.6 (24.3)	475.6 (25.6)	573.9 (22.7)	678.6 (19.4)	683.8 (14.6)	837.4 (12.7)	834.4 (8.4)	973.5 (7.0)	1043.5 (6.1)	1017.1 (4.9)
Interest Receipts	213.3 (20.9)	320.8 (23.4)	471.02 (25.4)	747.2 (29.5)	1259.9 (36)	1950.3 (41.7)	3124.1 (47.4)	5419.0 (54.9)	8256.8 (59.8)	10442.6 (61.4)	12789.8 (62.4)
Profit from trading Accounts	-	1.7 (.124)	13.9 (.75)	15.5 (.61)	14.80 (.42)	9.6 (.21)	8.9 (.134)	1.17 (.011)	-	-	-
Profit on sale of assets	0.027 (.0026)	0.032 (.002)	0.43 (.023)	0.058 (.002)	0.051 (.0014)	0.051 (.001)	0.19 (.00006)	0.51 (.005)	4.5 (.033)	-	-
Agricultural income	0.035 (.0034)	0.039 (.003)	0.057 (.003)	0.0023 (.00009)	0.025 (.0007)	0.033 (.0007)	0.028 (.0004)	0.04 (.0004)	0.005 (.00004)	-	-
Rent	4.4 (.43)	4.5 (.33)	5.2 (.28)	5.4 (.21)	5.4 (.15)	4.6 (.09)	4.7 (.07)	4.4 (.04)	3.7 (.03)	-	-
Other Income	111.5 (10.9)	138.1 (10.1)	175.9 (9.5)	242.4 (9.6)	267.6 (7.6)	353.0 (7.5)	440.9 (6.7)	556.5 (5.6)	626.4 (4.5)	684.7 (4)	1273.9 (6.2)
<b>Total Income (A)</b>	<b>1022</b>	<b>1371</b>	<b>1857</b>	<b>2531</b>	<b>3504</b>	<b>4679</b>	<b>6595</b>	<b>9876</b>	<b>13810</b>	<b>17006</b>	<b>20491</b>
<b>2. Expenditure</b>											
Staff Expenses	490.2 (52.1)	606.2 (46.2)	835.3 (46.2)	996.4 (41.1)	1261.9 (39.5)	1488.9 (35.0)	1903.1 (31.0)	2560.9 (26.9)	3198.6 (23.9)	4551.3 (28.1)	4808.7 (26.5)
Administrative and other expenses	152.04 (16.2)	230.7 (17.6)	303.9 (16.8)	380.6 (15.7)	475.3 (14.9)	598.3 (14.1)	773.02 (12.6)	1037.3 (10.9)	1300.7 (9.7)	1579.8 (9.7)	1716.7 (9.5)
Promotional expenses	20.8 (2.2)	34.8 (2.6)	36.8 (2.0)	61.9 (2.6)	66.9 (2.1)	97.8 (2.3)	125.9 (2.1)	215.9 (2.3)	193.1 (1.4)	303.1 (1.9)	443.9 (2.4)
Interest and Finance Charges	268.6 (28.5)	431.4 (32.8)	579.4 (32.0)	876.7 (36.2)	1216.7 (38.0)	1698.9 (40)	3037.2 (49.5)	5232.8 (55.0)	8232.7 (61.4)	9216.3 (56.9)	9647.4 (53.1)
Depreciation	9.2 (.98)	10.2 (.93)	12.8 (.71)	17.3 (.71)	36.8 (1.2)	40.8 (.96)	43.8 (.71)	63.9 (.67)	75.7 (.56)	59.6 (.37)	85.3 (.47)
Loss on sale of assets	0.0007 (.00007)	0.006 (.0005)	-	0.017 (.0007)	-	0.0005 (.00001)	-	0.036 (.0003)	0.32 (.002)	-	-
Provisions for bad and doubtful debts	-	-	40.0 (2.2)	90.0 (3.7)	140.0 (4.4)	330.0 (7.8)	250.0 (4.1)	400.0 (4.2)	400.0 (3)	500.0 (3.1)	1450.0 (8)
<b>Total Expenditure (B)</b>	<b>940</b>	<b>1313</b>	<b>1808</b>	<b>2423</b>	<b>3198</b>	<b>4255</b>	<b>6133</b>	<b>9510</b>	<b>13400</b>	<b>16213</b>	<b>18153</b>
<b>Profit for the year (A-B)</b>	<b>82</b>	<b>58</b>	<b>49</b>	<b>108</b>	<b>306</b>	<b>424</b>	<b>462</b>	<b>365</b>	<b>409</b>	<b>793</b>	<b>2338</b>

Source: Annual Reports, KSFE Figures in parenthesis show percentage of each category to the total.

**Figure 4.6**

**Income and Expenditure of KSFE from 1991 to 2001**

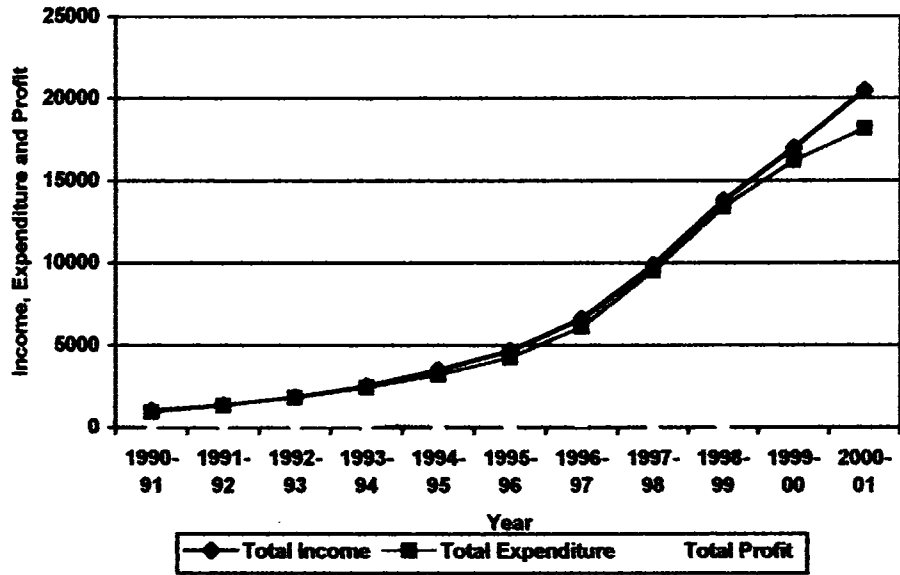


Table 4.16 above shows fluctuations on profit. This has been mainly due to unscientific provision for doubtful debts and inability to make an appropriate provision for taxation due to delay in the finalisation and auditing of accounts which has been leading to fines and penalties. Income Tax and interest tax assessments are completed only up to assessment year 1998-99 as on 11-10-2002. The expense ratio shows that only a small margin has been left after meeting the expenses (See Item 6 of Table 4.16). However, the position has improved in the year 2000-01.

The percentage of expense on staff to total income has been falling continuously from 1990-91 to 2000-01 except for the year 1999-00. The percentage of administrative expenses to total revenue also has shown a declining trend, both of which can be considered as good indication (See Item 8 of Table 4.16).

The percentage of interest and finance charges to the total income shows an increasing trend over the years except in 1999-00. Since the equity capital is low compared to the borrowed capital, the major portion of total revenue has to be paid as interest and finance charges (See Item 10 of Table 4.16).

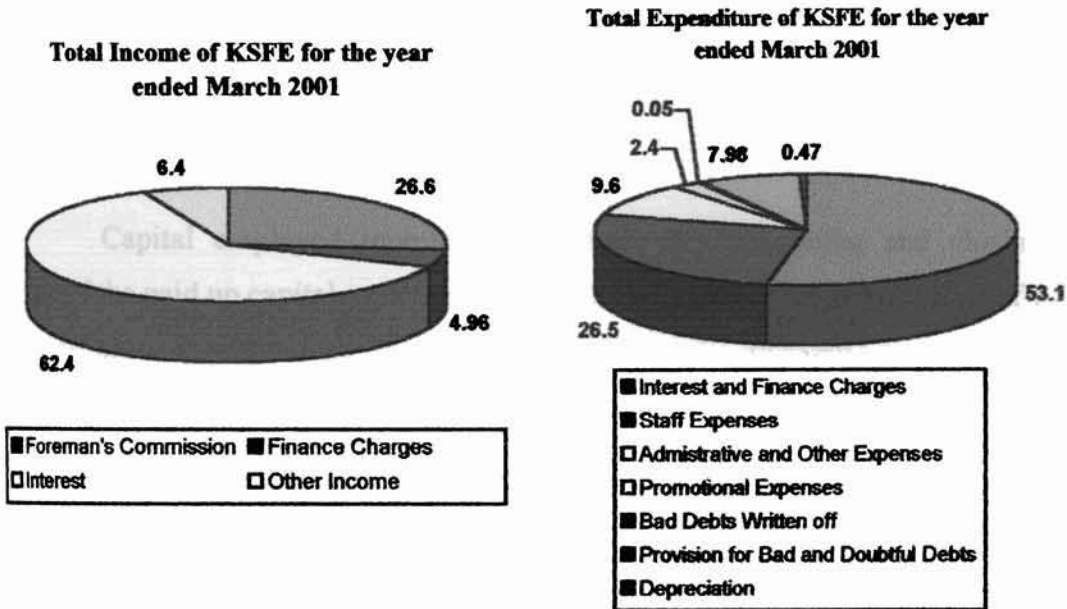
**Table 4.16**  
**Working Results at a Glance (Rs. Lakhs)**

ITEMS	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	AAG
1. Total Income	1022	1371	1857	2531	3504	4679	6595	9876	13810	17006	20491	
Growth Rate	-	34.15	35.45	36.30	38.44	33.53	40.95	49.75	39.83	23.14	20.49	35.20
Index	100	134	182	248	343	458	645	966	1351	1664	2005	
2. Total Expenditure	940	1313	1808	2423	3198	4255	6133	9510	13400	16213	18153	
Growth Rate	-	39.68	37.70	34.02	31.99	33.05	44.14	55.06	40.90	20.99	11.97	34.95
Index	100	140	192	258	340	453	652	1012	1426	1725	1931	
3. Profit Before Tax	82	58	49	108	306	424	462	365	409	793	2338	
Growth Rate	-	-29.3	-15.5	120.4	183.	38.6	8.9	-20.9	12.01	93.9	194.83	58.59
4. Provision for Taxation	38	30	46	102	205	415	355	254	317	688	1527	
5. Profit After Tax	44	28	3	5	101	9	107	111	92	105	811	
6. Total Expenses to Total Revenue (Percentage)	91.98	95.77	97.3	95.73	91.2	90.94	92.9	96.5	97	95.3	88.6	
7. Staff Expenses to Total Revenue (Percentage)	47.97	44.22	44.9	39.36	36.0	31.82	28.8	25.8	23.15	26.1	23.5	
8. Administrative Expenses to TR (Percentage)	14.88	16.83	16.3	15.04	13.5	12.8	11.7	9.63	9.31	9.28	8.4	
9. Staff Expenses and Administrative Expenses to TR (Percentage)	62.9	61.1	61.2	54.4	49.5	44.6	40.5	35.4	32.5	35.4	31.9	
10. Interest and Finance Charges to Total Revenue (Percentage)	26.28	31.46	31.2	34.64	34.7	36.31	46.0	52.6	59.77	54.2	47.1	

Source: Annual Reports, KSFE

**Figure 4.7**

**Composition of Total Income and Expenditure of KSFE for March 2001.**



The major share of the income of KSFE as on March 2001 is in the form of interest income (62.4 %) and as foreman's commission (26.6 %). These two items constituted 89 per cent of the total income of KSFE. The finance charges (6.4 %) and 'other income' (4.96 %) are the other components of the total income of KSFE.

The major items of expenditure of the Company as on March 2001 are interest and finance charges (53.1%) on Fixed Deposits and *Sugama*, Guarantee Commission, Staff expenses (26.5%), Administration expenses (9.6%), Provision for bad and doubtful debts (7.98%), Promotional expenses (2.4%), Depreciation expenses (0.47%) and bad debt written off (0.05%).

#### 4.8.5 Financial Performance Ratio

Financial performance ratios can analyse the financial health and prosperity of the Company. It can also offer important clues about the strategies that firms are pursuing, and so it can be an important tool for analysing the strategies of competitors <sup>9</sup>.

##### 4.8.5.1 Return on Capital Employed

Capital employed represents the mean of the opening and closing balance of the paid up capital, reserves and surplus and borrowing. Operating profit represents profit after taxation. Table 4.17 shows the return on capital employed

**Table 4.17**  
**Return on Capital Employed (Rs. Lakhs)**

Year	Capital Employed	Operating Profit	Ratio
1990-91	2006	44.02	2.2
1991-92	2919	27.82	.95
1992-93	4075	2.94	.07
1993-94	5569	5.43	.09
1994-95	7906	101.05	1.28
1995-96	11816	9.30	.08
1996-97	19708	106.63	.54
1997-98	32877	111.35	.34
1998-99	50183	91.75	.18
1999-00	63505	105.43	.17
2000-01	72745	811.04	1.1

Source: Computed from Annual Reports, KSFE.

The return on capital employed has been extremely low. In many years it is even less than one per cent.

#### 4.8.5.2 Return on Net Worth

Table 4.18 below shows the Return on net worth.

**Table 4.18**  
**Return on net worth (Rs. Lakhs)**

Year	Net Worth*	Operating Profit	Ratio
1990-91	285	44.02	15.4
1991-92	319	27.82	8.7
1992-93	325	2.94	.90
1993-94	330	5.43	1.65
1994-95	383	101.05	26.4
1995-96	545	9.30	1.71
1996-97	596	106.63	17.9
1997-98	707	111.35	15.7
1998-99	726	91.74	12.6
1999-00	758	105.4	13.9
2000-01	1503	811.04	53.9

\* Net worth represents the paid up capital and reserves and surplus  
Source: Annual Reports, KSFE

The return on net worth reaches the highest level of 53.9 in 2000-01 due to large increase in the net income in that year. The ratio shows a fluctuating trend over the period from 1990-91 to 2000-01, in some years it has dropped to even less than one per cent. This is mainly because of fluctuations in operating profit.

#### 4.8.5.3 Current Ratio

Current ratio enables to view the liquidity position and the Company's ability to meet current obligations.

**Table 4.19**  
**Current Ratio**

Year	Current Assets (Rs. Lakhs)	Current Liabilities (Rs. Lakhs)	Ratio
1990-91	12261.90	9887.76	1.24
1991-92	15124.71	11809.73	1.28
1992-93	19142.71	14536.18	1.31
1993-94	25639.59	19423.60	1.32
1994-95	35038.02	25883.37	1.35
1995-96	47190.12	33246.84	1.41
1996-97	67784.34	42894.60	1.58
1997-98	100940.74	60724.64	1.66
1998-99	139405.74	80131.20	1.73
1999-2000	169370.94	102984.39	1.64
2000-2001	214051.21	136088.72	1.57

Source: Annual Reports, KSFE

A study of the current assets and current liabilities shows that current ratio of KSFE has been satisfactory over the years.

#### **4.8.5.4 Net Worth to Total Liabilities**

Table 4.20 shows that there has been steady increase in the liabilities of the Company which has made the ratio of net worth to total liabilities precariously low. Since the total liabilities of the Company are increasing, it necessitates an enhancement of net worth of the Company.



**Table 4.20**  
**Net-worth to Total Liabilities (Rs. Lakhs)**

Year	Total Liabilities*	Net-worth	Percentage
1990-91	12089.96	285	2.36
1991-92	14949.78	319	2.13
1992-93	19013.76	325	1.71
1993-94	25515.31	330	1.29
1994-95	34936.98	383	1.10
1995-96	46925.78	545	1.16
1996-97	67504.61	596	0.88
1997-98	100564.68	707	0.70
1998-99	139223.94	726	0.52
1999-00	169417.04	758	0.45
2000-01	214388	1503	0.70

\* Total Liabilities include paid up capital, reserves and surplus, borrowings (unsecured loan and fixed deposit from public guaranteed by Government of Kerala), trade loans and other current liabilities

Source: Annual Reports, KSFE

#### **4.8.5.5 FUNDS MANAGEMENT**

Funds raised by KSFE include annual Chit turnover and total deposits mobilised. Table 4.21 shows that the volume of total funds mobilised increased continuously from 1990-91 to 2000-01. Table 4.21 also indicates that during the period 2000-01, KSFE has deployed 81.6 per cent of the funds raised by it. The major items of uses of funds are the amount recoverable from prized subscribers and the total advances made by the Company. Funds deployed represents the percentage uses of funds to the total funds mobilised. The funds management has generally been improving over the years. It rose steadily from 55.2 per cent in 1990-91 to nearly 82 per cent in 2000-01.

**Table 4.21**  
**Funds Mobilised by KSFE and the Pattern of Deployment (Rs.Lakhs)**

Year	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	AAG
Total Funds Mobilised	18159	21957	26741	32902	40428	54568	77930	115351	153875	190187	226675	
Growth Rate	-	20.92	21.79	23.04	22.87	34.98	42.81	48.02	33.40	23.60	19.19	29.06
Total Funds Deployed	10021	13172	15961	45468	30391	41567	59560	94326	127880	153288	184953	
Growth Rate	-	31.44	21.17	184.87	-33.16	36.77	43.29	58.37	35.57	19.87	20.66	41.89
Funds Deployed as percentage of Funds Mobilised	55.2	60	59.7	138.2	75.17	76.17	76.42	81.77	83.11	80.62	81.6	

Source: Computed from Annual Reports, KSFE

#### 4.8.6.1 Staff Productivity

The KSFE as a Miscellaneous Non-Banking Finance Company has to attach great importance to the area of human resource development. In fact, the quality of its human resources is the biggest asset for any service industry. Hence human resource development and management require utmost importance. The KSFE has a staff-strength of 3,159 as on 2001. The Company has an established mechanism for imparting training and development for its employees. Table 4.22 gives the position of employees in KSFE for the period 1990-2001.

**Table 4.22**  
**Particulars of KSFE Employees**

YEAR	Number of Officers	Assistants	Subordinate Staff	Part-Time	Total Staff Strength
1990	280 (22.3)	717 (57.2)	161 (12.8)	95 (7.7)	1253 (100)
1991	306(21.7)	842(59.6)	159(11.3)	105(7.4)	1412 (100)
1992	340(21.9)	944(60.7)	154(9.9)	116(7.5)	1554 (100)
1993	382(23.4)	966(59.1)	153(9.4)	133(8.1)	1634 (100)
1994	435(26.6)	901(55.2)	151(9.3)	146(8.9)	1633 (100)
1995	491 (26.5)	872 (47.0)	334 (18.0)	158 (8.5)	1855 (100)
1996	524(25.9)	952(47.1)	379(18.8)	166(8.2)	2021 (100)
1997	NA	NA	NA	NA	2105 (100)
1998	651(24.6)	1401(53)	415(15.7)	177(6.7)	2644 (100)
1999	737(23.9)	1741(56.5)	400(13)	204(6.6)	3082 (100)
2000	892 (28)	1820(57.3)	252 (7.9)	215 (6.8)	3179 (100)
2001	886(28.1)	1807(57.2)	251(7.94)	215(6.81)	3159(100)

Source: Annual Reports, KSFE

Figures in parenthesis show the percentage of each category of employees to the total staff strength.

More than 57 per cent of the employees are in the category of Assistants. Manpower planning and consequent improvement in their efficiency deserve special attention for quality service and speedy operation of the Company. While there has been increase in officers' category, there has been decline in the number of subordinate staff and also part-time employees. This can be viewed as a good sign for a service sector industry.

The performance of the employees has been evaluated on the basis of their productivity. The productivity has been calculated by taking into account the total business and the total staff expenses. The average business per employee as well as average business per Rupee of staff expense shows an increasing trend from 1990-91 to 2000-01. At the same time the average staff expenses per employee has also been mounting. The details are given in Table 4.23.

It is also seen from Table 4.23 that though the index of staff expenses shows an increasing trend for the above-mentioned period, the index of staff productivity has not been impressive for the period. The increase in the index of staff productivity in 2000-01 can be considered as a good sign to the Company.

**Table 4.23**  
**Staff Productivity of KSFE-1990-2001**

Parameters	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01
1. Total No. of Employees	1412	1554	1634	1633	1855	2021	2105	2644	3120	3179	3159
2. Total No. of Branches	106	120	137	150	159	173	180	198	203	204	225
3. Average No. of Employees per branch	13.3	13	11.9	10.9	11.7	11.7	11.7	13.4	15.4	14.12	14.04
4. Total Staff Expenses (Lakhs)	490	606	835	996	1262	1489	1903	2496	3501	4551	4808
5. Average Staff Expenses (Row 4 divided by Row 1)	.35	.39	.51	.61	.68	.74	.90	.94	1.12	1.43	1.52
6. Total Business (Lakhs)	20480	24992	30201	38870	48698	67266	99618	154580	209150	244923	283105
7. Average Business per employee (Row 6 divided by Row 1)	14.5	16.1	18.5	23.8	26.3	33.3	47.3	58.5	67	77.04	89.6
8. Average Business per Re. of staff expense * (Row 7 divided by Row 5)	41.4	41.3	36.3	39.0	38.7	45.0	52.6	62.2	59.8	53.9	58.9
9. Index of Staff Productivity **	100	99.5	87.7	94.2	93.5	108.7	127.1	150.2	144.4	130.2	142.3
10. Index of Staff Expenses ***	100	111.4	145.7	174.3	194.3	211.4	257.1	268.6	320	408.5	434.3

\* Average business per Re. of staff expense represents the ratio of average business per employee (Row 7) and the average staff expense per employee (Row 5) ie. Row 7 divided by Row 5.

\*\* Index of staff productivity has been calculated from Row 8 ie., average business per Re. of staff expense.

\*\*\* Index of staff expenses has been calculated from Row 5 ie., average staff expense.

#### 4.8.6.2 Branch Productivity

Net income per branch and total business per branch emerges as the principal variables for branch productivity. Table 4.24 below gives the level of branch productivity and the business per branch. The branch productivity (ie., income per branch) has shown impressive growth over the years. But in more recent years, the rate of growth seems to have fallen. So also the business per branch shows a similar growth trend.

**Table 4.24**  
**Branch Productivity**

Year	Total Income and Growth Rate (Rs. Lakhs)		Number of Branches and Growth Rate		Branch Productivity		Total Business (Rs. Lakhs)		Business per Branch	
	Total Income	Growth rate	Number of Branches	Growth rate	Branch Productivity	Growth rate	Total Business	Growth rate	Business per Branch	Growth rate
1990-91	1022	-	106	-	10	-	20480	-	193.2	-
1991-92	1371	34.1	120	13.2	11	10.0	24992	22.0	208.3	7.8
1992-93	1857	35.4	137	14.2	14	27.3	30201	20.8	224.8	8.0
1993-94	2531	36.3	150	9.5	17	21.4	38870	28.7	259.1	15.3
1994-95	3504	38.4	159	6.0	22	29.4	48698	25.3	306.3	18.2
1995-96	4679	33.5	173	8.8	27	22.7	67266	38.1	388.8	27.0
1996-97	6595	40.9	180	4.0	36	33.3	99618	48.1	553.4	42.3
1997-98	9876	49.7	198	10.0	50	38.9	154580	55.2	780.7	41.1
1998-99	13810	39.8	203	2.5	68	36.0	209156	35.3	1030.3	32.0
1999-00	17006	23.1	204	0.5	83	22.1	244923	17.1	1200.6	16.5
2000-01	20491	20.5	225	10.3	91.1	9.8	283105	15.6	1258.2	4.8
AAG		35.2		7.9		25.1		30.6		21.3

Source: Annual Reports of KSFE for various years.

Though the magnitude of business per branch has been improving, its annual growth rate shows a declining trend after 1997-98.

#### **4.8.6.3 Distribution of Total Revenue Among Schemes**

The total revenue of KSFE includes contribution from Chits and allied products, income from loan schemes, interest income from other sources and income from other sources. Table 4.25 gives the break-up of the contribution of various schemes.

Table 4.25 shows that the main contributor to the revenue has been Chit and allied schemes. It has ranged from 49.4 per cent in 1990-91 to 62.2 per cent in 1999-2000 and 59.46 per cent in 2000-01. This noticeable contribution of Chit and allied products has been partly due to the increase in the contribution of NCL to the total revenue. While the contribution of *Chitty* and interest income (especially interest from defaults) shows an increasing trend, the contribution of loan schemes to the total revenue of the Company declined for the period mentioned above. The biggest drop in the contribution to the total revenue is shown by HP scheme for the period under review from 22.3 per cent in 1990-91 to 4.96 per cent in 2000-01. The contribution of loan schemes, other than *Chitty* loan is not significant and forms only 14.4 per cent as of 2000-01, and that of income from interest is 25.14 per cent as of 2000-01. The contribution from schemes like House Finance Loan, Trade Loan, Fixed Deposit Loan and even Gold Loan are nominal. The table also shows a drop in the revenue from other sources from 7.07 per cent to 1.1 per cent.

**Table 4.25**  
**Distribution of Total Revenue among Schemes (Rs. Lakhs)**

No	Product /Scheme	1990-91		1993-94		1996-97		1999-2000		2000-01	
		Amount	Percent- tage	Amount	Percent- tage	Amount	Percent- tage	Amount	Percent- tage	Amount	Percent- tage
1	<b>Chitty &amp; Allied Products</b>										
A	Chitty	496	49.4	1056	42.09	2433	36.93	5344	31.42	6473	31.6
B	Chitty Loan	-		18	.72	57	.87	111	.65	145	.71
C	NCL	-		35	5.54	1191	18.1	5129	30.16	5564	27.15
	<b>TOTAL</b>	<b>496</b>	<b>49.4</b>	<b>1209</b>	<b>48.2</b>	<b>3681</b>	<b>55.9</b>	<b>10584</b>	<b>62.2</b>	<b>12182</b>	<b>59.46</b>
2	<b>Other Products</b>										
A	HP	224	22.3	574	22.88	837	12.70	1044	6.14	1071	4.96
B	Gold Loan	7	.70	31	1.24	69	1.05	99	.58	142	.69
C	FDL	1	.09	9	.36	57	.87	120	.71	127	.61
D	TL	-		11	.44	157	2.38	257	1.51	226	1.1
E	HFL	-		20	.80	70	1.06	60	.35	61	.30
F	NHFL	-		-		202	3.07	494	2.90	606	3.0
G	NFDL	-		-		155	2.35	758	4.46	736	3.59
H	RCL	-		-		-	-	-	-	30	.15
	<b>TOTAL</b>	<b>232</b>	<b>23.10</b>	<b>645</b>	<b>25.7</b>	<b>1547</b>	<b>23.5</b>	<b>2832</b>	<b>16.7</b>	<b>2969</b>	<b>14.40</b>
3	<b>Interest from other Sources</b>										
A	Deposit	127	12.7	304	12.12	622	9.44	1808	10.63	3021	14.7
B	Default	77	7.7	210	8.37	530	8.04	1595	9.38	2102	10.3
C	Others	1	.10	9	.36	22	.33	12	.07	29	.14
	<b>TOTAL</b>	<b>205</b>	<b>20.4</b>	<b>523</b>	<b>20.8</b>	<b>1174</b>	<b>17.8</b>	<b>3415</b>	<b>20.10</b>	<b>5152</b>	<b>25.14</b>
4	Income from other Sources	71	7.07	132	5.26	186	2.8	176	1.03	211	1.1
5	Total Revenue	1004	100	2509	100	6588	100	17007	100	20514	100

Source : Computed from the Office Files, Head-Office, KSFE.



#### 4.8.7 Market Outreach

The parameters selected for measuring the Company's outreach are the number of branches, number of rural branches, type of financial services offered, the number of subscribers served, total value of loans extended and the total value of deposits mobilised.

Starting with 3 branches in 1970, KSFE has gradually spread its business throughout the state of Kerala with its 225 branches as on 31-3-2001. But the number of branches in the rural areas has been limited which highlights the necessity and scope for opening new branches in those areas. Data shows that a newly opened branch is likely to attain break-even level once it floats Chit business of Rs.12 Lakhs along with other schemes. The Company's past experience reveals that any branch with fairly good potential can attain a *Chitty sala* of Rs.12 Lakhs within two years of commencement of the branch <sup>10</sup>.

Starting with Chit scheme, KSFE has been undertaking diversification of schemes all through its period of growth. There has been a 12.9 times increase in the volume of Chit business, (from 1990-91 to 2000-01) which has been the main financial service offered by it (See Table 4.2). The share of KSFE in the total Chit business in the state has been 79.4 per cent. The number of Chit subscribers associated with the Company exceeds 7 Lakhs. Besides, the Company offers 12 other schemes to the public so that they can meet their various financial needs in one institution.

The value of deposits mobilised and the loan extended is also an indicator of the outreach of the Company. The value of deposits mobilised through Fixed Deposit and *Sugama* has increased from Rs.7,420 Lakhs in 1990-91 to Rs. 88,150 Lakhs in 2000-01. The loan extended shows an increase from Rs. 2,321 Lakhs in 1990-91 to Rs.56,430 Lakhs in 2000-01 and can be considered as an index of market outreach. The type of financial services offered by the Company has been meant to cater to the requirements of different income as well as occupation categories.

#### **4.8.8.1 Default Rate And Revenue Recovery.**

Default is common in Chits and other loan schemes and it is possible to keep it to the minimum through sustained efforts. The interest charged on default is a source of revenue to the Chit Fund Company <sup>11</sup>. But the fact that the default rate is high on all schemes of KSFE must be a matter of great concern. As depicted in Table 4.26, the 20 per cent default in New Chitty Loan as on 31-3-2000 reveals a serious problem to the Company. At the same time, the decline in the default rate for the above scheme as on 31-3-2001 (17 %) is a positive sign. This has been due to the changes in eligibility norms for availing of NCL, which made the norms more stringent to avoid misuse of the scheme. Non-prized subscribers of the Chit are eligible for NCL upto 50 per cent of the *sala*, provided they had remitted 10 per cent of the instalments promptly.

The default rate of HP scheme fluctuates over the period under review and forms 16 per cent in 1999-2000, but shows a decline to 10 per cent in 2000-01. The fall in the default rate of New Housing Finance Scheme to 6 per cent in 2000-01 when compared to the previous years is a matter of relief. The default rate for other schemes like TFL, HMS and NFDL has shown an increasing trend for the period from 1996 to 2001. Though the default rate is increasing, the small magnitude of loans except Chit loan may not pose serious threat to the Company. Table 4.26 gives the details:

**Table 4.26**  
**Analysis of the Default Position of KSFE Schemes (Rs. Lakhs)**

Sl. No.	Nomenclature	31/03/96		31/03/97		31/03/98		31/03/99		31/03/00		31/03/01		Per centage
		Amount	Per centage	Amount	Per centage	Amount	Per centage	Amount	Per centage	Amount	Per centage	Amount	Per centage	
I	<i>Chitty Sala</i>	3266		4254		5950		7421		9569		11538		
a.	<i>Chitty Default</i>	370	11.3	683	16.1	900	15.1	1339	18.0	2348	24.5	2160	18.7	
II	Other Schemes													
a.	HP	459	12	528	11	672	13	674	11	853	16	673	10	
b.	Trade Loan	34	4	153	9	269	13	389	18	399	23	377	26	
c.	HMS	22	6	48	6	94	11	103	10	138	15	154	21	
d.	NFDL	-	-	75	4	265	9	380	6	551	10	634	19	
e.	NHFS	-	-	17	1	164	5	287	7	316	8	272	6	
III	New Chitty Loan													
a.	NPA*of NCL	450	8	843	9	1491	6	5187	16	6814	20	5419	17	

\* NPA of NCL: NCL advances relating to default of respective Chitty over six months.

Source: Head Office, KSFE

**Table 4.27**  
**Prized and Non- Prized Default on Collectable**  
**Demand as on 31-3- 2002 (Rs. Lakhs)**

Prized <i>Chitty</i>		Non Prized <i>Chitty</i>	
Collectable Demand	Default	Non Collectable Demand	Default
216263.98	3500.43 (1.62)	592069.00	26247.13 (4.43)

Source: Head Office, KSFE

Figures in parenthesis show the percentage

Table 4.27, which gives the latest position of default reveals that the default of prized Chit on collectable demand <sup>12</sup> (1.62%) is manageable and not a serious problem to the Company.

Mounting default over-dues, besides reducing the profitability of the Company, has also increased the transaction cost for effecting recovery. The 'Revenue Recovery Debtors' (defaulters on whom the Revenue Recovery procedures have been initiated) in KSFE had been steadily increasing from 1992-93 to 2000-01. There has been 14.6 times increase in the Revenue Recovery Debtors in KSFE from Rs. 244 Lakhs in 1992-93 to Rs. 3,576 Lakhs in 2000-01. This is an indication of the high default rate of various schemes and the weak revenue recovery performance of the Company. See, Table 4.28 for details.

**Table 4.28****Trends in Revenue Recovery Debtors in KSFE (Rs. Lakhs)**

Year	Revenue Recovery Debtors	Growth Rate	Revenue Recovery Collection	Percentage of RR Debtors to Total Business
1992-93	244	-	-	.80
1993-94	387	58.6	-	.99
1994-95	546	41.1	-	1.1
1995-96	782	43.2	234(30)	1.2
1996-97	993	27.0	352(35)	.99
1997-98	1628	63.9	579(36)	1.1
1998-99	2519	54.7	835(33)	1.2
1999-2000	2768	9.9	1271(46)	1.1
2000-01	3576	29.2	2003(56)	1.3
AAG		41.0		

Source: Annual Reports, KSFE. Figures in parenthesis show the percentage of Revenue Recovery Collection to the revenue recovery debtors in Lakhs.

Table 4.28 shows that the percentage of revenue recovery collection to the revenue recovery debtors has been increasing from 30 per cent during 1995-96 to 56 per cent during 2000-01 and can be considered as a positive sign. The provision for revenue recovery debts has been made on the basis of RBI norms for Non Performing Assets (NPA). However, provision for NPA of NCL<sup>13</sup> is made on ad hoc basis. Provision for NPA on other debts has not been made, as the same has not been identified by the Company and this may cause delay in effecting revenue recovery processes.

#### 4.8.8.2 Recovery Performance of the Company.

The data from the Revenue Recovery Department show that the collection of default amount is far below the targets fixed by the Company. Analysis of the achievements of all the nine Special Deputy Tahsildars (SDT) working in the Revenue Recovery Department has been presented in Table 4.29.

**Table 4.29**

**Revenue Recovery Target and Collection for 1995-96 to 2000-01 (RS. Lakhs)**

Year	Target	Collection
1995-96	---	234.3
1996-97	---	352.0
1997-98	720	578.5 (80.4)
1998-99	900	835.3 (92.8)
1999-2000	1500	1270.5 (84.7)
2000-01	2766.7	2002.8 (72.4)

Source: Head Office, KSFE

Figures in parenthesis show the percentage

Table 4.29 reveals that the total revenue recovery achievement for 2000-01 (72.4%) was not satisfactory when compared with that of the previous years. Even though revenue recovery proceedings are initiated, in certain cases the Company has not been able to take it to the logical end due to legal and political interventions (This is based on our discussion with Managers of the Company). This is also one of the reasons for mounting overdues. In fact, what is more important is the fact that the revenue recovery achievement is actually coming down.

To sum up, the presence of KSFE as the Public Sector Chit Company serves as an alternative, and as a check to the stupendous growth of private Chits and informal Chits. Inadequate capital base of the Company is a matter of concern. The market share of KSFE in the Chit business shows its clear dominance in Kerala. In general, the rate of growth of KSFE Chits is higher than the rate of growth of the Chit industry in the State. The privileges enjoyed by KSFE as a Government Company and the exemptions from various provisions of the Kerala *Chitties* Act demands still higher rates of growth. Direct and indirect benefits of KSFE to the Government of Kerala are creditworthy. Though the Company has diversified its schemes, the contribution of its various loan schemes except *Chitty* loan scheme has not been attractive. The deposit schemes like *Sugama* and Fixed Deposit are also attractive.

The business performance of the Company highlights the need for achieving still higher growth rate in future. Although the Company has been making profits throughout the period, the profitability ratio shows fluctuations and the expense ratio shows that only a small margin is left after meeting the expenses. The default record is high and revenue recovery performance is not satisfactory. The outreach of the Company's services to the rural masses seems not satisfactory as shown by the lesser proportion of rural branches. The analysis of the performance of KSFE on the basis of various parameters reveals its viability and areas of its success and failures. Some of the objectives of the Company at the time of its incorporation are yet to be achieved. The continued presence of the informal and unregistered Chit Fund sector pinpoints the need for more dynamic growth for KSFE and wider market outreach.

## Notes and References

1. See, Manuel of Procedure, Kerala State Financial Enterprises Ltd., Government of Kerala, Vol.1, (1991).
2. The Third Kerala Legislative Assembly headed by E.M.S Namboodhiripad, (1967-1970). Mr. P.K Kunju was the Finance Minister of the State at that period.
3. See, Sreedharan Menon, K.A. *Schemes for Starting Chitties under State Auspices*, Kerala State, (1967), P. 16.
4. As per Certificate of Incorporation, No: 2249 of 1969 as KSFE Ltd.
5. *Chitty* loan scheme was in operation from the very beginning of the Company. The Company introduced new *Chitty* Loan (NCL) to the non-prized Chit subscriber in 1993. The scheme includes many novel features like advancing 50 per cent of the loan amount immediately after first auction of the Chit.
6. Since all Chits under study are monthly *Chitties*, in each month there will be a turnover equal to the capital of all *Chitties*. Annual turnover is calculated by multiplying the monthly Chit *sala* by 12.
7. According to the Chit Act, Foreman by law is a holder of a ticket ( one number) in each class of Chit conducted by him. This membership by the foreman in a Chit is called Statutory Ticket.
8. Restriction on acceptance of public deposits by 'Non-Banking Companies (Acceptance of Deposits through Commercial Paper) Directions, (1989). In terms of Miscellaneous Non-Banking Companies RBI Directions, Companies can accept deposits upto 25 per cent and 15 per cent of the Net Owned Fund from public and shareholders respectively for a period of 6 months to 36 months. But KSFE can accept deposits on the guarantee of the Government.
9. Bourgeois L.J, Irene, M. Duhaime and Stimpert, J.L. *Strategic Management: A Management Perspective*, second edition, The Dryden Press, Harcourt Brace College Publishers, (1999).



10. The monthly income and expenditure of a branch with Chit *sala* of Rs.12 Lakhs is estimated and shown by the Company as Rs. 85,166, and as Rs.75,000 respectively. Hence profit of the branch equals Rs.85,166 - Rs. 75,000 = Rs.10,166.
11. Economic Implications of the Central Chit Funds Act 1982: An Appraisal, M. Mohandas, Prajnan, Vol.XVII, No.I, (1988).
12. Collectable Chit Amount is calculated by considering only the number of instalments and Chit subscription that is already paid. For example, in the case of a prized *Chitty* of One Lakh with 100 subscribers and monthly subscription of Rs.1000, the collectable Chit amount after the 10<sup>th</sup> instalment for a subscriber is equal to  $1000 \times 10 = 10000$ . So the total collectable Chit amount equals  $Rs.10000 \times 100 = Rs. 10,00,000$
13. As regards NPA of NCL is concerned, the Company thought that the accounts of those loanees who are upto date in remittance of Chit instalments, cannot be considered as NPA, though they may be defaulting the interest payment, as there is asset building in such cases. However, Company had made ad hoc provision of Rs. 818 Lakhs NPA-NCL during 1999-2000.

## **CHAPTER FIVE**

### **CHIT FINANCE IN KERALA: AN APPRAISAL**

In the previous chapter we have made a detailed discussion and assessment of Kerala State Financial Enterprises Ltd. Based on our sample survey, this chapter presents the profile of Chit subscribers in Kerala, their awareness on Chits in general and particularly on KSFE. It presents the motivational factors for joining Chits and the pattern of utilisation of prize money. This chapter also analyses the problems of Chit subscribers and makes a comparative assessment of different types of Chit institutions by using Chit Funds Rating Analysis. It also includes the opinions of KSFE employees on various issues.

#### **5.1.1 Profile of Chit Subscribers in Kerala**

Primary data collected from a sample of 400 subscribers from various Chit Funds provide a profile of Chit subscribers in the financial sector of Kerala. The respondents were classified into various categories on the basis of Chit institutions, age, sex, marital status, place of residence, geographical area, education status, profession and income. Table 5.1 gives the profile of Chit subscribers in Kerala.

**Table 5.1**  
**Profile of Chit Subscribers in Kerala**

S.No.	Profile of Subscribers	Frequency	Percentage	Cumulative Percentage
<b>1.</b>	<b>Institution-wise</b>			
	KSFE	160	40	40
	Co-operatives	114	28.5	68.5
	Private	86	21.5	90
	Informal	40	10	100
	<b>Total</b>	<b>400</b>	<b>100</b>	<b>100</b>
<b>2.</b>	<b>Sex</b>			
	Male	284	71	71
	Female	116	29	100
	<b>Total</b>	<b>400</b>	<b>100</b>	<b>100</b>
<b>3.</b>	<b>Martial Status</b>			
	Married	364	91	91
	Unmarried	36	9	100
	<b>Total</b>	<b>400</b>	<b>100</b>	<b>100</b>
<b>4.</b>	<b>Place of Residence</b>			
	Panchayat	216	54	54
	Municipality	87	21.8	75.8
	Corporation	97	24.2	100
	<b>Total</b>	<b>400</b>	<b>100</b>	<b>100</b>

Source: Survey Data

Table 5.1 shows that men (71%) outnumber women in subscribing to Chit Funds, 91 per cent are married and 54 per cent reside in sub-urban or rural areas. Considering the focus of the study, 40 per cent of the subscribers have been selected from KSFE.

#### 5.1.2 Age-Wise Profile of Subscribers

Subscribers in the age group of 35-55 formed 65.5 per cent of total, 36.5 per cent belonged to the age group of 35-45. It clearly shows that majority of the subscribers belonged to the middle age group or the income-earning age group of 35 to 55 years. Table 5.2 shows the distribution of subscribers according to age.

**Table 5.2****Distribution of Subscribers According to Age**

Age Group	Ernakulam	Trichur	Trivandrum	Calicut	Total
Below 25	3 (1.5)	1 (1.7)	4 (4)	-	8(2)
25-35	40 (20)	12 (20)	24 (24)	15 (37.5)	91(22.7)
35-45	82 (41)	21 (35)	27 (27)	16 (40)	146(36.5)
45-55	54 (27)	20 (34)	33 (33)	9 (22.5)	116(29)
55-65	16 (8)	5 (8.3)	8 (8)	-	29(7.3)
Above 65	5 (2.5)	1 (1.7)	4 (4)	-	10(2.5)
TOTAL	200 (100)	60 (100)	100 (100)	40 (100)	400(100)

Source: Survey Data

Figures in brackets represent percentage to total of the respective column.

Table 5.2 also shows that the percentage of younger subscribers belonging to the age group of 25-35 was comparatively higher (37.5 %) in the district of Calicut. Chi-square test for the association between age and the preference for various Chit Funds revealed no clear association between them. This is shown in Table 5.2A.

**Table 5.2A Age Composition and Preference for various Chit Institutions**

Age	KSFE	Co-operative	Private	Informal	Total
BELOW 25	5	3	0	0	8
25-35	38	29	18	6	91
35-45	63	36	32	15	146
45-55	43	34	23	16	116
55-65	9	8	10	2	29
ABOVE 65	2	4	3	1	10
Total	160	114	86	40	400

$$\chi_0^2 = 10.255, df = 9, \chi_{0.05,9}^2 = 16.919, \text{Independent}$$

**5.1.3 Education-wise Profile of Subscribers**

The educational status of Chit subscribers has been analysed in Table 5.3. The Table shows that 46.3 per cent of the subscribers are graduates and above and are thus highly educated. Only 12 per cent of the subscribers

are below SSLC. Thus, it is clear that the majority of the Chit subscribers are well educated.

**Table 5.3**  
**Education-wise Profile of Subscribers**

Education	Ernakulam	Trichur	Trivandrum	Calicut	Total
Below SSLC	27 (13.5)	5 (8.3)	11(11)	5(12.5)	48 (12)
SSLC	52 (26.0)	24 (40.0)	31(31)	9(22.5)	116 (29)
Pre-degree	21 (10.5)	10 (16.7)	14 (14)	6(15.0)	51 (12.7)
Graduate	54 (27.0)	13(21.7)	30(30)	8(20.0)	105 (26.3)
Post-Graduate	40 (20.0)	7 (11.7)	7 (7)	11(27.5)	65 (16.3)
Professional	6 (3.0)	1 (1.7)	7 (7)	1(2.5)	15 (3.7)
Total	200(100)	60 (100)	100(100)	40(100)	400 (100)

Source: Survey Data Figures in brackets represent percentage

**Table 5.3A**  
**Education level and Preference for various Chit Funds**

Education	Institutions				
	KSFE	Co-operatives	Private	Informal	Total
Below SSLC	13	12	17	6	48
SSLC	50	32	23	11	116
Pre-Degree	19	15	10	7	51
Graduate	43	30	22	10	105
Post graduate	27	22	12	4	65
Professional	8	3	2	2	15
Total	160	114	86	40	400

Source: Survey Data

$$\chi_0^2 = 120.94, \text{ d.f} = 12, \chi_{0.05,12}^2 = 21.026, \text{ Dependent}$$

Chi-square test for the association between education and the preference for various Chit Funds revealed clear association between them. The Subscribers of KSFE and Co-operatives have higher educational qualification than those of Private and Informal Chit Funds. This implies that subscribers with higher educational qualification prefer the registered Chit Funds due to safety aspects when compared to the attractions and incentives offered by the private and informal Chit Funds.

### 5.1.4 Occupation-wise Profile of Subscribers

Of the subscribers, 54.5 per cent belonged to the salaried class, and 20.8 per cent belonged to the business class, while agriculturists formed only less than 10 per cent of the total subscribers. Thus it shows that by profession, more subscribers are from the salaried class. Chit business warrants regular and prompt monthly remittances and so it is highly convenient for regular income groups. It also reveals the declining association of farmers with Chits, despite their strong presence in the early stages of its growth (See Chapter 3, Sections 3.2 and 3.3). At the same time the Table also reveals the larger presence of agriculturists (32.5%) in the district of Calicut when compared to other districts. This has been shown in Table 5.4

**Table 5.4**  
**Occupation-wise Profile of Subscribers**

Occupation	Ernakulam	Trichur	Trivandrum	Calicut	Total
Agriculture	12 (6)	7 (11.7)	6 (6.0)	13 (32.5)	38(9.5)
Business	37 (18.5)	25 (41.7)	15 (15)	6 (15)	83(20.7)
Salaried class	119 (59.5)	25 (41.7)	53 (53)	21 (52.5)	218(54.5)
Others	32 (16)	3 (5.0)	26 (26)	0 (0)	61(15.3)
Total	200 (100)	60 (100)	100(100)	40(100)	400(100)

Source: Survey Data

Figures in brackets represent percentage

**Table 5.4A Association between Occupation and Chit Funds**

Occupation	Institutions				
	KSFE	Co-operatives	Private	Informal	Total
Agriculture	19	12	4	3	38
Business	26	12	31	14	83
Salaried Class	92	77	34	15	218
Others	23	13	17	8	61
Total	160	114	86	40	400

Source: Survey Data

$$\chi_0^2 = 36.696, \text{ d.f} = 9, \chi_{0.05,9}^2 = 16.919, \text{ Dependent}$$

Chi-square test for the association between occupation and the preference for various Chit Funds revealed clear association between them. The study shows that, salaried group and agriculturists preferred KSFE and Co-operative Chits, whereas 54.2 per cent of business group preferred Private and Informal Chits.

### 5.1.5 Income-wise Profile of Subscribers

The subscribers are classified into six groups in terms of their household monthly income as shown in Table 5.5. Income-wise classification shows that 79 per cent belonged to the income groups below Rs.15,000.

**Table 5.5**  
**Income-wise Profile of Subscribers**

Income (Rs)	Ernakulam	Trichur	Trivandrum	Calicut	Total
Up to 5000	44 (22)	12(20)	28(28)	8(20)	92 (23)
5001-10000	60 (30)	15(25)	53(53)	21(52.5)	149 (37.3)
10001-15000	39 (19.5)	15(25)	13(13)	8(20)	75 (18.7)
15001-25000	45 (22.5)	11(18.3)	5(5)	3(7.5)	64 (16)
25001-35000	9 (4.5)	3(5)	0(0)	0(0)	12 (3)
35001 & above	3 (1.5)	4(6.7)	1(1)	0(0)	8 (2)
Total	200(100)	60(100)	100(100)	40(100)	400 (100)

Source: Survey Data

Figures in brackets represent percentage

**Table 5. 5A**  
**Association between Income and Preference for Chit Funds**

Monthly Family Income	KSFE	Co-operatives	Private	Informal	Total
Upto 5000	39	28	17	8	92
5001-10000	63	40	31	15	149
10001-15000	28	20	22	5	75
15001-25000	22	20	12	10	64
25001-35000	4	4	3	1	12
Above 35000	4	2	1	1	8

Source: Survey Data

$$\chi_0^2 = 6.707, \text{ d.f} = 9, \chi_{0.05,9}^2 = 16.919, \text{ Independent}$$

Chi-square test for the association between income and the preference for various Chit Funds found no clear association between them. Thus it shows that the low income as well as the middle-income group constitutes the major subscribers of Chit schemes in various Chit Funds.

### 5.1.6 Subscribers' Association with Chit Funds

Table 5.6 reveals that 280 subscribers (70%) have more than 5 years of association with Chit Funds. Longer years of association with Chit Funds have been seen in the districts of Ernakulam and Trichur. It also gives an indication that Chit subscribers continue their association with Chit Funds even after the termination of a particular Chit. When one Chit terminates most of them subscribe to a newly starting Chit.

**Table 5.6**  
**Subscribers' Association with Chit Funds**

Association with Chit Funds	Ernakulam	Trichur	Trivandrum	Calicut	Total
< 1 year	6(3)	3(5)	0(0)	0(0)	9(2.25)
1-3 years	21(10.5)	6(10)	14(14)	5(12.5)	46(11.5)
3-5 years	20(10)	11(18.3)	22(22)	12(30)	65(16.25)
5-10 years	35(17.5)	10(16.7)	34(34)	13(32.5)	92(23.0)
Above 10 years	118(59)	30(50)	30(30)	10(25)	188(47.0)
Total	200(100)	60(100)	100(100)	40(100)	400(100)

Source: Survey Data Figures in brackets represent percentage

**Table 5.6.A**  
**Association with Chit Funds: No. of Years**

Institution \ Year	< 1 Year	1 - 3	3 - 5	5 - 10	Above 10	Total
KSFE	6 (3.8)	26 (16.3)	27 (16.9)	34 (21.3)	67 (41.9)	160 (100)
Co-operatives	2 (1.8)	6 (5.3)	19 (16.7)	27 (23.7)	60 (52.6)	114 (100)
Private	0	7 (8.1)	13 (15.1)	23 (26.7)	43 (50.0)	86 (100)
Informal	1 (2.5)	7 (17.5)	6 (15.0)	8 (20.0)	18 (45.0)	40 (100)
Total	9 (2.3)	46 (11.5)	65 (16.3)	92 (23.0)	188 (47.0)	400 (100)

Source: Survey Data Figures in brackets represent percentage

$$\chi_0^2 = 14.345, \text{ d.f} = 9, \chi_{0.05,9}^2 = 16.919, \text{ Independent}$$



From Table 5.6A, it is clear that there is no clear association of subscribers between various Chit Funds and the number of years of relationship. Subscribers of various Chit Funds have longer years (more than 5 years) of relationship.

### 5.1.7 Association of Subscribers with Different Types of Chit Funds

Different types of Chit institutions exist in Kerala. They are private Chit Funds, co-operative Chits and the public sector Chit Funds existing side by side and competing with each other along with the large multitude of informal Chit Funds. Most of the subscribers have simultaneous association with more than one Chit institution. Table 5.7 shows that the 400 subscribers interviewed from different Chit institutions have subscriptions in more than one Chit institution. 264 subscribers (66%) ie; (35+39+19 = 93) from KSFE, (35+11+2 = 48) from Co-operative, (21+24+9 = 54) from Private and (21+22+26 = 69) from Informal have simultaneous subscription in different types of Chit Funds.

**Table 5.7**  
**Association of Subscribers with Different Chit Funds**

	KSFE	Co-operative	Private	Informal
KSFE	<b>160</b>	35	39	19
Co-operative	35	<b>114</b>	11	2
Private	21	24	<b>86</b>	9
Informal	21	22	26	<b>40</b>

Source: Survey Data

This clearly indicates the strong preference of subscribers to the Chit scheme despite the type of Chit institution. Besides, each type of Chit Fund has its own unique methods of attracting subscribers to their schemes. This simultaneous association with more than one Chit institution enables one to make a comparative assessment of various Chit institutions.

### 5.2.1 Reasons For Preferring Chits

Securing a loan from a financial institution especially in the formal sector was a Herculean task, till recently. So it is quite natural that the common man resorted to Chits and Chit institutions for the realisation of his life long dreams. Though different saving and borrowing avenues are available to the people, an attempt has been made to find out the main reasons for preferring Chit schemes. Table 5.8 gives the reasons for preferring Chits.

**Table 5.8**  
**Reasons for Preferring Chits**

Reasons	Average Score*	Rank
Convenient and Contractual way to save	5.09	2
Provides future savings in advance	5.23	1
A source of credit, not available elsewhere	4.35	5
Minimum Formalities	4.13	6
Dividend reduced monthly subscription	4.67	4
Dual option for savings and borrowings	4.88	3

\* Average scoring and ranking has been made, considering all the preferences to each alternative by giving due weight.

Source: Survey Data

The most important reason for preferring Chit is that it provides future savings in advance. The next important reason has been its convenient and contractual<sup>1</sup> way to save. The other reasons are the facility of dual option for saving and borrowing and the monthly dividend obtained through the sharing of discount amount. This implies that the return from Chit is not the main reason for preferring Chits. A further analysis shows that the various reasons for preferring Chits by the subscribers are closely linked with their motivational factors for joining Chits as either for saving or for borrowing or both.

### 5.2.2 General Awareness on Chit Business

The awareness of the subscribers on the working of Chits, the benefits of Chit and on the legal aspects of Chits are presented in Table 5.9.

Though a clear majority, 89.25 per cent (48.75 + 40.50) of the Chit subscribers are aware of the working of Chit business, only less than 25 per cent (4 + 20.5) are aware of the legal aspects of Chits. 51.5 per cent have not even heard of the Kerala *Chitties* Act. Monthly Deposit Scheme (MDS) or Mutual Benefit Scheme (MBS) run by Co-operatives, which is equivalent to the Chit scheme in every respect, seems not so popular among the people. 46 per cent of the subscribers (46 % = 18.50+27.50) are either not aware or know very little about them. Thus it implies that though majority of the subscribers have long years of association with Chit funds, their awareness on the legal aspects of Chits and on MDS/MBS have not been adequate.

**Table 5.9**  
**General Awareness on Chit Business**

Awareness on	Very Well	To Some Extent	Very Little	Not Aware	Total
Working of Chit Business	195 (48.75)	162 (40.50)	38 (9.50)	5 (1.25)	400 (100)
MDS/MBS of Co-operatives	84 (21.00)	132 (33.00)	74 (18.50)	110 (27.50)	400 (100)
Benefits On Chit	184 (46.00)	169 (42.25)	32 (8.00)	15 (3.75)	400 (100)
Kerala <i>Chitties</i> Act	16 (4.00)	82 (20.50)	96 (24.00)	206 (51.50)	400 (100)

Source: Survey Data Figures in brackets represent percentage

### 5.2.3 Household Savings Behaviour

Mobilisation of voluntary personal savings even in rural areas permits increased capital accumulation and helps develop the spirit of enterprise. Savers must have a wide choice of safe financial assets offering attractive returns. Contractual savings arrangements play a vital role in mobilising savings from different income categories.

**Table 5.10**  
**Savings Behaviour of Chit Subscribers**

	<b>Avenues of Savings</b>	<b>Order of Preference</b>
1	Banks	6
2	Provident Fund	3
3	Chits	1
4	Co-operatives	7
5	Post-Office	4
6	National Savings Certificate	8
7	Bonds, Shares	9
8	Insurance	2
9	<i>Indira Vikas Patra</i>	10
10	Gold/Jewellery	5

Source: Survey Data

The household savings behaviour of subscribers shows that the main avenues of savings of Chit subscribers follow the order of Chit, Insurance, Provident Fund, Post Office Savings, Gold and Deposits in Bank and Co-operatives. The subscribers' choice of saving avenues such as Indira Vikas Patra, Bonds, Shares and National Saving Certificates seem less significant. The savings behaviour of the Chit subscribers indicates their preferences towards less risky savings avenues.

#### **5.2.4 Investment Options and Order of Preference**

The survey data revealed that the investment preferences of Chit subscribers are in the order of, bank deposits followed by Post-office savings, *Chitty*, Investment in National Saving Certificates, Bonds and Shares. The subscribers' preference of investment in land or building and in gold seemed to be less significant. Table 5.11 also shows that Chit as an investment option received third preference (Rank 3) from the Chit subscribers.

**Table 5.11**  
**Investment Options and Order of Preference**

Investment Options	Average Score	Rank
Keeping cash in Bank	5.71	1
Keeping cash in Post office	5.35	2
Investment in Chit	5.29	3
Investment in NSC	5.00	4
Investment in Bonds and Shares	4.85	5
Investment in land and building	4.81	6
Gold	4.78	7

Source: Survey Data

It substantiates that the Chit subscribers in general prefer those investment avenues where the risk is less.

#### **5.2.5 Motivational Factors for Joining Chits**

The basic principle underlying a Chit is the accumulation of savings, very often, for a predetermined objective/goal. The Chit helps not only to pool the savings of those who have the capacity to save, but also encourages even the poor to spare something out of their meager income. Table 5.12 reveals that majority of the subscribers (60.2%) join Chits for both saving and borrowing. Subscribers who bid the Chit and take the prize money are borrowers for the remaining period of the Chit. Similarly, those who are not taking the prize amount before the termination of the Chit are savers. The decisive factor which decides a subscriber to be a saver or a borrower is the rate of discount.

Table 5.12 also shows that 29 per cent of the subscribers join Chits for the saving purpose alone and 10.8 per cent solely for borrowing. It also reveals that majority of subscribers consider a Chit both as saving as well as a borrowing instrument.

**Table 5.12**  
**Motivational Factors for Joining Chits**

Occupation	To Save	To Borrow	Both	Total
Agriculture	8 (21.1)	4 (10.5)	26 (68.4)	38 (100)
Business	16 (19.3)	16 (19.3)	51 (61.4)	83 (100)
Salaried class	68 (31.2)	16 (7.3)	134 (61.5)	218 (100)
Others	24 (39.3)	7 (11.5)	30 (49.2)	61 (100)
Total	116 (29)	43 (10.8)	241 (60.2)	400 (100)

Source: Survey Data Figures in brackets represent percentage

$$\chi_0^2 = 15.885, \text{ d.f} = 6, \chi_{0.05,6}^2 = 12.59, \text{ Dependent}$$

Chi-square test for the association between motivational factors for joining Chits and occupation of the subscribers reveals association between them. It also shows that comparatively professionals and the salaried group join Chits more as a saving avenue, whereas the business group joins Chits more as a borrowing avenue.

Chi-square test for the association between motivational factors for joining Chits and income of the subscribers reveals no clear association between them. The subscribers from all income categories consider Chit both as a saving and a borrowing instrument. It shows that the motivational factors for joining Chit is neither pure saving nor pure borrowing.

**Table 5.12A**  
**Motivational Factors for Joining Chits: Income-wise**

Income	To Save	To Borrow	Both	Total
Up to 5000	25	10	57	92
5001-10000	42	14	93	149
10001-15000	22	10	43	75
15001-25000	18	7	39	64
25001-35000	6	1	5	12
Above 35000	3	1	4	8
Total	116	43	241	400

Source: Survey Data

$$\chi_0^2 = 1.551, \text{ d.f} = 6, \chi_{0.05,6}^2 = 12.59, \text{ Independent}$$

### 5.2.6 Purpose of Saving through Chit Funds

Chit Funds as traditional financial intermediaries mobilise the scattered savings, which the subscribers can use for various purposes. Table 5.13 below shows the various purposes of saving through Chit Funds.

**Table 5.13**  
**Purpose of Saving through Chit Funds**

Purpose	Average Score	Rank
To buy or build a house	5.36	1
Business/Industry	5.32	2
Marriage	5.23	3
Savings for old age	4.65	4
Consumer durables/vehicles	4.47	5

Source: Survey Data

Table 5.13 shows that the prime purpose of the savings through Chits appear to be to buy or build a house, followed by business/industry, and to meet marriage expenses. The other targets for the *Chitty* are savings for old age and for buying consumer durables, vehicles, for the education of children, for the payment of old debt and for meeting agricultural expenses. Thus we can generalise by saying that the main purpose of such savings has been for productive/asset creation.

### 5.2.7 Purpose of Borrowing through Chit Funds

Chit subscribers can avail of their future savings as borrowed funds at a discount for meeting their various requirements. Table 5.14 shows the purpose of borrowing through Chit Funds.

**Table 5.14**  
**Purpose of Borrowing through Chit Funds**

Purpose	Average Score	Rank
Business/Industry	5.12	1
To pay off old debts	5.07	2
To meet marriage expenses	4.77	3
To buy or build a house	4.75	4
Education of Children	4.39	5

Source: Survey Data

Table 5.14 shows that the purpose of borrowing through Chits have been given the preferences in the order of business/industry, to pay off burdensome old debts, for marriage purposes and to buy or build a house. The motives behind joining Chits as a borrowing avenue for the education of the children, for agricultural purposes and for taking *Chitty* loan have been given less importance. But in this case, there is some difference in the motives. Those who look at Chits as source of borrowings, except in the case of industry/business, are found to use it for meeting urgent debt obligations or for household expenditures like marriage expenses or children's education. Hence, it is comparatively less productive/asset creating.

**Table 5.15**  
**Purpose of Saving: Occupation-wise Analysis**

Schemes	Agriculture		Business		Salaried class		Others		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
1. Business/Industry	1	2.6	40	48.2	1	0.4	2	3.3	44	11.00
2. Buying Consumer Durables etc	3	7.9	3	3.6	11	5	3	4.9	20	5.00
3. To Buy or Build House	8	21.1	17	20.5	85	39	19	31.2	129	32.25
4. Education of Children	3	7.9	0	0	19	8.7	6	9.8	28	7.00
5. Savings for Old Age	3	7.9	2	2.4	17	7.8	5	8.2	27	6.75
6. Marriage	8	21.1	10	12	45	20.6	18	29.5	81	20.25
7. To Take <i>Chitty</i> Loan	0	0	1	1.2	2	0.9	0	0	3	0.75
8. Agricultural Purposes	6	15.7	0	0	0	0	0	0	6	1.50
9. To pay-off Old Debts	3	7.9	3	3.6	8	3.7	5	8.2	19	4.75
10. Others	3	7.9	7	8.5	30	13.9	3	4.9	43	10.75
<b>Total</b>	<b>38</b>	<b>100</b>	<b>83</b>	<b>100</b>	<b>218</b>	<b>100</b>	<b>61</b>	<b>100</b>	<b>400</b>	<b>100.00</b>

Source: Survey Data

The purpose of saving through Chit seems different to various occupation categories of subscribers. The agriculturists, the salaried group and professionals consider the major purposes of saving through Chit as for buying or building a house and for meeting marriage expenses. But the businessmen view the purpose of saving through Chit for investment or business activity.



The details of Chit as a saving avenue to different occupation categories are given in Table 5.15

**Table 5.16**  
**Purpose of Borrowing: Occupation-wise Analysis**

Schemes	Agriculture No	Business No	Salaried class No	Others No	Total No
1) Business/Industry	0 (0)	17 (60.7)	0 (0)	0 (0)	17 (14.66)
2) Buying Consumer Durables etc	7 (41.2)	0 (0)	5 (9.4)	3 (16.6)	15 (12.93)
3) To Buy or Build House	1 (5.9)	1 (3.6)	16 (30.2)	1 (5.6)	19 (16.38)
4) Education of Children	1 (5.9)	1 (3.6)	3 (5.7)	2 (11.1)	7 (6.03)
5) Savings for Old Age	1 (5.9)	2 (7.1)	2 (3.8)	1 (5.6)	6 (5.17)
6) Marriage	3 (17.6)	0 (0)	7 (13.2)	3 (16.6)	13 (11.21)
7) To Take <i>Chitty</i> Loan	0 (0)	0 (0)	0 (0)	1 (5.6)	1 (0.86)
8) Agricultural Purposes	1 (5.9)	0 (0)	4 (7.5)	1 (5.6)	6 (5.17)
9) To pay-off Old Debts	3 (17.6)	7 (25)	15 (28.3)	4 (22.2)	29 (25)
10) Others	0 (0)	0 (0)	1 (1.9)	2 (11.1)	3 (2.59)
<b>Total</b>	<b>17 (100)</b>	<b>28 (100)</b>	<b>53 (100)</b>	<b>18 (100)</b>	<b>116 (100)</b>

Source: Survey Data

Figures in brackets represent percentage

The purpose of borrowing through Chit also seems different to various occupation categories of subscribers. The agriculturists view Chit as a borrowing avenue for buying consumer durables (41.2%), for meeting marriage expenses (17.6%) and for paying off burdensome old debts (17.6%). The purposes of borrowing through Chit for the salaried class are for buying or building a house (30.2%), for the payment of old debts (28.3%) and for meeting marriage expenses (13.2%). But the business group prefers the prize amount to be obtained at the first few instalments for the investment in business (60.7%) and for the repayment of old debts (25%). The details of Chit as a borrowing avenue to different occupation categories are given in Table 5.16

### 5.2.8 Opinion on the Return on Chits

Return on Chits represents the gains accrued by the subscribers in joining the Chits. The return varies from subscriber to subscriber and is influenced by factors like the duration of the Chit, the instalment at which prize money is received, the rate of discount, etc. (See Chapter 3, Section 12). Table 5.17 shows the opinion of subscribers on the return on Chits.

**Table 5.17**  
**Opinion of Subscribers on the Return on Chits: Occupation-wise**

Occupation	Satisfied		Not Satisfied		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Agriculture	25	73.5	9	26.5	34	100
Business	46	68.7	21	31.3	67	100
Salaried class	164	81.2	38	18.8	202	100
Others	46	85.2	9	14.8	54	100
Total	281	78.7	76	21.3	357	100

Source: Survey Data

The survey results show that majority of the subscribers (78.7%) are satisfied with the return derived from the savings in Chits.

**Table 5.17A**  
**Opinion of Subscribers on the Return on Chits: Institution-wise**

Institution	Satisfied		Not Satisfied		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
KSFE	105	74.5	36	25.5	141	100
Co-operative	90	86.5	14	13.5	104	100
Private	56	75.7	18	24.3	74	100
Informal	30	78.9	8	21.1	38	100
Total	281	78.7	76	21.3	357	100

Source: Survey Data

Table 5.17A shows that subscribers from various Chit institutions also are satisfied with the return from Chits.

**Table 5.17B****Opinion of Subscribers on the Return on Chits: Income-wise**

Income	Satisfied		Not Satisfied		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Up to 5000	67	81.7	15	18.3	82	100
5001-10000	113	83.7	22	16.3	135	100
1001-15000	50	76.9	15	23.1	65	100
15001-25000	39	68.4	18	31.6	57	100
25001-35000	8	72.7	3	27.3	11	100
35001 & above	4	57.1	3	42.9	7	100
Total	281	78.7	76	21.3	357	100

Source: Survey Data

An income-wise analysis on the return on Chit as shown in 5.17B also reveals that subscribers of different income categories are generally satisfied with the gain from the scheme. But it must be pointed out that most of the subscribers express their opinion on returns without making actual calculations. This indicates that there are a number of other attractions besides the return, for preferring Chits (See Table 5.8).

### 5.3.1 Problems Faced By Chit Subscribers

The subscribers face problems from the individual to institutional foremen without much exception. Many factors contribute to the existence of such state of affairs.

### 5.3.2 Default

Observations on various Chit institutions indicate the existence of mounting default in Chits. Mounting default rate in Chits would affect adversely the smooth operation of Chit Funds. One of the important areas where attention has to be focused is the reduction in default. The opinions of the subscribers as well as the employees have been analysed in detail on the various reasons for default. Of the 400 subscribers interviewed, 218 subscribers have been defaulters of Chit for at least on one instalment during their association with Chits. Table 5.18 shows that among the defaulters,

majority (85.6 %) is in KSFE, 36.8 per cent in co-operatives, 32.5 per cent in Private Chits and 27.5 per cent in informal Chit Funds.

**Table 5.18**  
**Default: Institution-wise Analysis**

Institution	No. of Subscribers	No. of Defaulters	Percentage
KSFE	160	137	85.6
Co-operatives	144	42	36.8
Private	86	28	32.5
Informal	40	11	27.5
Total	400	218	54.5

Source: Survey Data

The important reasons of default cited by the defaulters themselves in the order of importance are: unexpected fall in income, rise in family expenditure, unexpected change in business and low penal rate of interest. The lower default rate in the case of informal and private Chits in comparison with KSFE Chits is of significance. This is explained by their business tactics of offering gifts to the prompt subscribers, strict follow up and because of the personal relationship with the subscribers.

The default rate in KSFE is relatively high. The reasons highlighted by the KSFE employees for higher default rate in KSFE Chits have been the failure in timely reminders and follow up (61.2%). Another important reason has been the low penal rate of interest on defaults (27.9%). This has been shown in Table 5.19. The default interest on KSFE Chits has been 9 per cent on non-prized default and 12 per cent on prized default on the subscription amount.

**Table 5.19**  
**Opinion of KSFE Employees on Reasons for Default**

No.	Reasons for Default	Frequency	Percentage	Cum. Percentage
1	Low penal interest	46	27.9	27.9
2	No timely follow up	101	61.2	89.1
3	No loss of membership	2	1.2	90.3
4	Others	16	9.7	100
	Total	165	100	100

Source: Survey Data

Absence of strict follow-up measures and lack of personal contact of the Company have been viewed as the major reasons for the large volume of default.

**Table 5.19A**  
**Default: Occupation-wise Analysis**

Institution \ Occupation	Occupation				Total
	Agriculture	Business	Salaried Class	Others	
KSFE	18 (13.1)	42 (30.7)	58 (42.3)	19 (13.9)	137 (100)
Co-Operatives	8 (19.0)	7 (16.7)	22 (52.4)	5 (11.9)	42 (100)
Private	2 (7.2)	14 (50)	6 (21.4)	6 (21.4)	28 (100)
Informal	2 (18.2)	5 (45.5)	3 (27.2)	1 (9.1)	11 (100)
Total	30	68	89	31	218 (100)

Source: Survey Data

Figures in brackets represent percentage

Table 5.19A reveals that the major defaulters of KSFE and Co-operatives are the salaried group, whereas the business group forms the main defaulters of Private and Informal Chit Funds.

**Table 5.19B****Default: Income-wise Analysis**

Income(Rs.)	No. of Subscribers	No. of Defaulters	Percentage
Up to 5000	92	88	95.7
5001-10000	149	65	43.6
10001-15000	75	33	44
15001-25000	64	27	42.2
25001-35000	12	3	25
Above 35000	8	2	25
Total	400	218	54.5

Source: Survey Data

Table 5.19B reveals that default rate is very high in the case of low-income category of subscribers as compared to middle income and high-income groups.

**5.3.3 Problems in Prompt Payment of Prize Money**

In the formal sector, Co-operatives (90%) stand first in prompt payment of prize amount on due date, followed by Private Chits (87%). The Table 5.20 clearly shows that only 48 per cent of the subscribers in KSFE get the prize amount on due date.

**Table 5.20****Payment of Prize Money: Institution-wise Analysis**

Institution	On Due Date (Percentage)	Delayed (Percentage)	Total
KSFE	48	52	100
Co- operatives	90	10	100
Private (Kerala)	87	13	100
Private (Outside Kerala)	66	34	100
Informal	91	9	100

Source: Survey Data

This has to be an eye-opener and the Company must meticulously analyse the reasons for the delayed payment of prize amount. Whereas 66 per cent of the subscribers in the Private Chits (Outside Kerala) get the prize

amount on due date and 92 per cent in the informal Chits, the State sponsored KSFE falls far behind. The delay in payment of prize money is therefore viewed as one of the major difficulties of KSFE Chits.

### 5.3.4 Reasons for Delayed Payment of Prize Money

The due date for the payment of prized Chit is fixed as 45<sup>th</sup> day after bidding. But certain Co-operatives and the KSFE now follow the practice of disbursing the prize money on 30<sup>th</sup> day after bidding. The delayed payment of prize money by the Chit Funds is a common phenomenon. Table 5.21 shows the major reasons for the delayed payment of prize money by various Chit funds.

**Table 5.21**  
**Reasons for Delayed Payment of Prize Money**

Reasons	KSFE	Co-operatives	Private (Kerala Rgd.)	Private (Out side)	Informal
1. Failure to find Guarantors/Security	45(41.6)	6(66.7)	-	8(38.1)	1(12.5)
2. Negligence/Delay Tactics of the Company	16(14.8)	2(22.2)	3(100)	11(52.4)	6(75)
3. Formalities of the Company	47(43.6)	1(11.1)	-	2(9.5)	1(12.5)
Total	108(100)	9(100)	3(100)	21(100)	8(100)

Source: Survey Data

Figures in brackets represent percentage

In KSFE, the major reasons for the delayed payment of prize money are the complicated formalities of the company and also the failure to find guarantors. The failure to find guarantors and negligence of the company form the major problems of co-operatives. The delay tactics using lame excuses of the company forms the major problem for the delay in both private and in informal Chits.

### 5.3.5 Number of Visits to Get Prize Amount

Table 5.22 shows that after bidding the prize money, the Co-operatives provide the prize amount by the first visit of the subscriber in 43.6

per cent of the cases and another 53.8 per cent obtain the prize amount within a maximum of three visits. While 86.7 per cent obtain the prize amount within a maximum of three visits in the private Chits, only 34.4 per cent in KSFE obtain the prize amount in three visits.

**Table 5.22**

**Number of Visits to Get Prize Amount: Institution-wise Analysis**

	KSFE	Co-operatives	Przivate (Kerala)	Private (Out side)	Informal
No. of visits	Percentage	Percentage	Percentage	Percentage	Percentage
1. Only Once	2.6	43.6	46.7	20.9	82.4
2. 2-3 Times	31.8	53.8	40	46.5	15.6
3. 3-4 Times	40.3	1.3	6.7	23.3	2
4. More than 4 times	25.3	1.3	6.7	9.3	-
Total	100	100	100	100	100

Source: Survey Data

The payment system in the informal Chit sector is even better when compared to the private Chits since 82.4 per cent obtain it on the single visit. The door payment of the prize amount itself is an attraction in the informal sector. Thus it is very clear that the payment system in KSFE is least efficient when compared to its competitors and it is mainly due to the complicated formalities and security norms. The best in this regard are the informal Chits, followed by private Chits (with Kerala registration).

### 5.3.6 Preference in Obtaining the Prize Money

The gain in joining Chits is not equal for all subscribers. The gain varies from subscriber to subscriber mainly depending on the instalment at which he secures the prize amount. In general, the subscribers who take the prize amount at the earlier instalments are likely to gain more by investing the prize amount in other avenues assuming that they are able to invest at a rate higher than the cost of the funds (See our discussion in Chapter 3.12). Those who are not immediately in need of money could accumulate their savings profitably.



**Table 5.23****Preference in Obtaining the Prize Money**

Occupation Preference	Agriculture	Business	Salaried Class	Others	Total
First few Instalments	18 (47.37)	57 (68.67)	150 (68.81)	41 (67.21)	266 (66.50)
Last few Instalments	6 (15.79)	15 (18.07)	31 (14.22)	15 (24.59)	67 (16.75)
No Special Preference	14 (36.84)	11 (13.25)	37 (16.97)	5 (8.20)	67 (16.75)
Total	38 (100)	83 (100)	218 (100)	61 (100)	400 (100)

Source: Survey Data

Figures in brackets represent percentage

The majority of the subscribers (66.5%) prefer to get the prize amount within the first few instalments. The important reasons have been the twin advantages of depositing or investing the prize amount in more attractive schemes and an opportunity to meet emergencies, time value of money and meeting other immediate needs. Only 16.8 per cent prefer the prize amount in the last few instalments. Those who prefer to get the maximum amount even in the last few instalments join the Chits with a saving motive. Occupation-wise there was no significant difference in their preferences.

**Table 5.23A****Preference in Obtaining the Prize Money: Income-wise Analysis**

Performance	In the first few Instalment		In the last few Instalment		No Special Preference		Total	
	No.	Percentage	No.	Percentage	No.	Percentage	No.	Percentage
Up to 5000	58	63.0	18	19.6	16	17.4	92	100
5001 to 10000	105	70.5	21	14.1	23	15.4	149	100
10001 to 15000	51	68.0	13	17.3	11	14.7	75	100
15001 to 25000	40	62.5	12	18.8	12	18.8	64	100
25001 to 35000	5	41.7	3	25.0	4	33.3	12	100
Above 35000	7	87.5	0	0	1	12.5	8	100
Total	266	66.50	67	16.75	67	16.75	400	100

Source: Survey Data

Table 5.23A reveals that subscribers of all income categories prefer to get the prize amount in the first few instalments.

### 5.3.7 Utilisation of Prize Money

An enquiry into the utilisation of prize money last received by the subscribers (Table 5.24) revealed that 53.6 per cent of the subscribers used the prize amount for productive purposes like depositing the prize amount with the Chit institution itself or Banks, used for debt repayment, agricultural purposes or business purposes and for purchase of vehicles for commercial purpose. This is quite similar to the observation and findings and arrived at by Nayar, CPS (1973), Radhakrishnan, S (1975) and Mohandas, M (1988).

An occupation-wise enquiry into the details of the utilisation of the prize money last received by the subscribers revealed that 73.4 per cent of the agriculturists and 83.1 per cent of the businessmen used the prize amount for productive purposes. But, 57.4 per cent of the salaried class utilised the prize amount for non-productive purposes like expenditure on marriage, purchase of vehicles and household articles and on other miscellaneous expenses. 64.8 per cent of other occupation category including professionals also utilised the prize amount for non-productive purposes. Table 5.24 reveals occupation-wise difference in the utilization of the prize money last received.

**Table 5.24**  
**Utilisation of Prize Money: Occupation-wise**

Purpose \ Occupation	Agriculture	Business	Salary	Others	Total
1. Deposited with the Chit institution	8 (23.5)	14 (16.9)	38 (19.3)	8 (4.8)	68 (18.5)
2. Deposited with the bank	8 (23.5)	3 (3.6)	12 (6.1)	3 (5.5)	26 (7.1)
3. Debt repayment	5 (14.7)	13 (15.7)	32 (16.2)	6 (11.1)	56 (15.2)
4. Marriage Purpose	4 (11.8)	4 (4.8)	23 (11.7)	5 (9.3)	36 (9.8)
5. Agricultural Purpose	1 (2.9)	0 (-)	0 (-)	1 (1.9)	2 (.54)
6. Business	2 (5.9)	39 (46.9)	0 (-)	1 (1.9)	42 (11.4)
7. Purchase of vehicles, assets, consumption	3 (8.9)	2 (2.4)	34 (17.3)	12 (22.2)	51 (13.9)
8. Vehicles for commercial purpose	1 (2.9)	0 (-)	2 (1)	0 (-)	3 (.82)
9. Others	2 (5.9)	8 (9.7)	56 (28.4)	18 (33.3)	84 (22.8)
Total	34 (100)	83 (100)	197 (100)	54 (100)	368 (100)

Source: Survey Data      Figures in brackets represent percentage

**Table 5.24A Utilisation of Prize Money: Income-wise Analysis**

Income Purpose	Upto 5000	5001-10000	10001-15000	15001-25000	25001-35000	Above 35001	Total
1. Deposited with the Chit institution	15(18.1)	27 (20.6)	11(15.5)	12 (19)	0 (-)	3(37.5)	68
2. Deposited with the bank	7 (8.4)	9 (6.9)	4 (5.6)	4 (6.3)	2 (16.7)	0 (-)	26
3. Debt repayment	11(13.3)	26 (19.8)	10(14.1)	6 (9.5)	1 (8.3)	2 (25)	56
4. Marriage Purpose	15(18.1)	14 (10.7)	4 (5.6)	2 (3.2)	1 (8.3)	0 (-)	36
5. Agricultural Purpose	1 (1.2)	1 (0.76)	0 (-)	0 (-)	0 (-)	0 (-)	2
6. Business	5 (6)	12 (9.2)	15(21.1)	7 (11.1)	2 (16.7)	1(12.5)	42
7. Purchase of vehicles, assets, consumption	5 (6)	17 (13)	13(18.4)	12 (19)	3 (25)	1(12.5)	51
8. Vehicles for commercial purpose	1 (1.2)	0 (-)	0 (-)	2 (3.2)	0 (-)	0 (-)	3
9. Others	2(27.7)	25(19.1)	14(19.7)	18(28.7)	3 (25)	1(12.5)	84
<b>Total</b>	<b>83(100)</b>	<b>131(100)</b>	<b>71(100)</b>	<b>63(100)</b>	<b>12(100)</b>	<b>8(100)</b>	<b>368</b>

Source : Survey Data

Income wise analyses of the utilisation of the prize money showed that only 48.2 per cent of the subscribers with lower income (upto 5000) utilised the amount for productive purposes like depositing the prize amount with the Chit institution itself or Banks, used for debt repayment, agricultural purposes or business purposes and for purchase of vehicles for commercial purpose. At the same time 75 per cent of the subscribers with higher income (above 35,000) utilised the prize amount for productive purposes.

### 5.3.8 Chitty Loan

Majority of the subscribers (72.3%) felt that Chits in general may not provide funds at the hour of need. The element of luck plays a significant

role especially in the early instalments of bidding. Hence *Chitty* loan facility has been introduced by certain foremen, especially KSFE, to bridge the gap between the real need of the subscribers till their tickets get prized. Many co-operatives are also providing Chit loans on security of the paid up subscription of the customers. The survey results show that 113 subscribers (28.3%) availed themselves of the *Chitty* loan facility. However the subscribers face a number of problems in availing of the *Chitty* loans. Table 5.25 analyses the problems faced by the *Chitty* loanees.

**Table 5.25**  
**Problems of *Chitty* Loan: Institution-wise Analysis**

Problems	KSFE	Co-operatives	Private	Informal
1. Delay in sanctioning	28 (57.1)	14 (46.7)	8 (36.4)	10 (82.3)
2. Security problem	8 (16.4)	5 (16.7)	6 (27.3)	- -
3. High rate of interest	13 (26.5)	10 (33.3)	6 (27.3)	2 (16.7)
4. Poor service of staff	- -	1 (3.3)	2 (9)	- -
Total	49 (100)	30 (100)	22 (100)	12 (100)

Source: Survey Data  
Figures in brackets represent percentage

Enquiry into the problems faced by the *Chitty* loanees of various Chit institutions reveals delay in sanction, high rate of interest and difficulty in giving guarantee/security are the major issues in all the Chit institutions analysed. Despite these problems, an overwhelming majority of the respondents (90.62%) considered the *Chitty* loan scheme to be useful. 9.38 per cent found it a burden due to the high rate of interest.

### 5.3.9 Other Problems Faced By Chit Subscribers: Institution-wise Analysis

The other main problems highlighted by the Chit subscribers themselves from different Chit Funds have been shown in the Table 5.26.

**Table 5.26**

**Other Problems Faced by Chit Subscribers: Institution-wise**

Options	Institutions		Co-operatives		Private (Kerala)		Private outside Kerala		Informal	
	A.S*	Rank	A.S	Rank	A.S	Rank	A.S	Rank	A.S	Rank
1. Complicated Formalities	5.62	1	-	-	-	-	-	-	-	-
2. Security/Guarantee	5.53	2	5.49	1	-	-	-	-	-	-
3. Fixed discount	5.44	3	4.50	4	-	-	-	-	-	-
4. Indifferent attitude of Staff	5.33	4	-	-	-	-	-	-	-	-
5. Cheque payment of prize money	5.03	5	-	-	-	-	-	-	-	-
6. Only to members	-	-	5.21	2	-	-	-	-	-	-
7. Small sala	-	-	4.80	3	5.10	2	-	-	4.64	3
8. Flexible discount	-	-	-	-	-	-	3.83	3	-	-
9. Delay tactics of the foreman.	-	-	-	-	3.83	5	3.77	4	-	-
10. Chances of Exploitation	-	-	-	-	5.39	1	5.46	1	5.18	2
11. Cheating	-	-	-	-	4.75	4	5.46	1	5.18	2
12. No transparency	-	-	-	-	4.79	3	4.77	2	4.57	4
13. No Registration	-	-	-	-	-	-	-	-	5.42	1
14. No Gift/ Offer	-	-	4.10	5	-	-	-	-	-	-

\* A S is the Average Score. By considering all the preferences to each alternative, average scoring and ranking has been made.

Source: Survey Data

Major problems experienced by the subscribers with KSFE Chits, in the order of ranking, have been complicated formalities, security/guarantee problems, fixed ceiling on discount, indifferent attitude of the staff, Cheque Payment of the prize money and long queue for payment of cash.

Difficulties faced with Co-operative Chits have been the insistence on security/guarantee from the members themselves, Chit schemes being open only to the members, small *sala*, fixed ceiling on discount and the absence of gifts or offers.

Major problems with Private Chits (Kerala Registered), in its order have been instances of exploitation, small *sala*, less transparency and openness, cheating and delay tactics in disbursing the prize money.

Problems of Private Chits based outside Kerala, in its order, have been given as instances of exploitation, cheating, less transparency and openness, flexible discount and delay tactics in paying the prize money.

Issues cited as problems with Informal Chits, in the order, have been absence of registration, exploitation, cheating, small *sala* and less transparency and openness.

To summarise, the complicated formalities and difficulty in giving security/guarantee are the distinct problems faced by the subscribers in the registered Chit Funds, whereas safety aspect and lack of transparency and openness are the difficulties in the private and informal Chit Funds.

#### **5.3.10 Malpractices by Foremen**

The Chit Fund industry has been exposed to a wide range of malpractices that cause problems to the subscribers. In recent years there has been an unprecedented growth of Chit Funds in many parts of the country. There have been several instances of failure of Chit Funds also due to the malpractices. The data from District Crime Record Bureau, Ernakulam Rural District limit shows that 48 cases of cheating were filed against Private Chit and Finance companies during the period 1990-2001. Among these, 38 cases were filed in 1997 pertaining to the malpractices of just 2 particular Private Chit Companies<sup>2</sup>. After collecting substantial amounts of money, the promoter or foreman either mismanages the funds and cause the Chits to collapse or disappears from the scene altogether. This affects the trust and confidence of the people on Chit Finance.

A survey by the All Kerala 'Blade Companies' Abolition Front revealed that the amount looted by Private Finance Companies (known as Blade Companies) and some of the unregistered Chit Companies from seven

districts for a period of four years (1995-99) have been to the tune of Rs.160 Crore. More than 2,00,910 depositors from the districts of Cananore, Kasaragod, Calicut, Waynad, Ernakulam, Idukki and Trivandrum became victims. The inability of the State Government to introduce suitable amendments to the existing Kerala *Chitties* Act and Kerala Money Lending Act are the reasons cited for the occurrences of such tragedies <sup>3</sup>.

Our survey showed that 51 subscribers (12.8%) were subjected to some form of cheating. The details are given in Table 5.27.

**Table 5.27**  
**Malpractices by Foremen**

Occupation Institutions	Agriculture	Business	Salaried Class	Others	Total
1) Informal Chits	4 (66.67)	12 (70.59)	12 (57.14)	7 (100)	35 (68.63)
2) Private Chit (Kerala Regd.)	0 (0.00)	0 (0.00)	3 (14.29)	0 (0.00)	3 (5.88)
3) Private Chit (Outside Kerala)	1 (16.67)	5 (29.41)	4 (19.05)	0 (0.00)	10 (19.61)
4) Others	1 (16.67)	0 (0.00)	2 (9.52)	0 (0.00)	3 (5.88)
Total	6 (100)	17 (100)	21 (100)	7 (100)	51 (100)

Source: Survey Data

Figures in brackets represent percentage

Table 5.27 shows that of the 51 victims, 35 subscribers (68.6%) were with informal Chit Funds and 10 subscribers (19.6%) with Private Chits with bases outside Kerala. The majority of the victims (52.9%) reported the matter to the Police, 15.7 per cent reported to the Registrar and 31.4 per cent have suffered in silence. Only 15.7 per cent of the victims got back the money in full, whereas 84.3 per cent lost a part of or all of the money in such cases. This indicates that the main reason for the malpractices in Chit business has been the operation of unregistered and informal Chit Funds. The victims are more among the agriculturists and least in business class and salaried.

## **5.4 ASSESSMENT OF CHIT FUNDS WITH SPECIAL REFERENCE TO KSFE**

Chit Funds, which originated in Kerala in ancient times, has grown gradually to be a decisive factor in the financial sphere of the State. Since the emphasis of the study is on KSFE, this section attempts to make an assessment of Chit Funds with special reference to KSFE. A comparative assessment of various Chit Funds has been made by considering their important success and failure factors, reasons for preferring various Chit Funds and by using Chit Funds Rating Analysis.

### **Assessment of KSFE:**

KSFE is the only public sector Chit Fund existing in the whole of India. It is the dominant Chit foreman among the registered Chit institutions in the State. This section presents an analysis of the awareness on KSFE schemes, popularity and attractiveness of KSFE schemes, opinions of both the subscribers and Employees on the quality of KSFE schemes and a comparative assessment of KSFE Chits with the Chit schemes of its competitors.

#### **5.4.1 Awareness on KSFE**

Table 5.28 analyses the awareness of subscribers on various schemes of KSFE, their awareness regarding the special privileges enjoyed by the Company, as a Government owned Chit Fund.

Table 5.28 shows that 71.25 per cent (36.25 + 35) of the subscribers are aware of the *Chitty* loan scheme, which is a scheme peculiar to KSFE, to help the needy non-prized subscribers. But unfortunately, majority (61.3%) of the subscribers have very little or absolutely no idea of the stamp duty exemption availed of by KSFE. Only 53 per cent of the subscribers are aware of the inter-branch remittance facility of Chits. 43 per cent of the subscribers have little or no awareness on the fixed ceiling on discount to KSFE Chits. The awareness on the saving schemes of KSFE like *Sugama* Deposit (67.5%) and Fixed Deposit (66.5%) has not been satisfactory, and so



needs more publicity. The loan schemes of KSFE like Hire Purchase (61%) and Gold Loan (57.3%) though known to them, also need wide publicity.

**Table 5.28**  
**Awareness on KSFE**

Awareness on KSFE	Very Well	To Some Extent	Very Little	Not Aware	Total
1 <i>Chitty</i> Loan	145 (36.25)	140 (35.00)	48 (12.00)	67 (16.75)	400 (100)
2 Stamp Duty Exemption	64 (16.00)	90 (22.50)	63 (15.75)	183 (45.75)	400 (100)
3 Inter Branch Remittance	149 (37.25)	63 (15.75)	50 (12.50)	137 (34.25)	400 (100)
4 Fixed Ceiling on Discount	181 (45.25)	47 (11.75)	42 (10.50)	130 (32.50)	400 (100)
5 <i>Sugama</i> Deposit	152 (38.00)	118 (29.50)	46 (11.50)	84 (21.00)	400 (100)
6 Fixed Deposit	132 (33.00)	134 (33.50)	54 (13.50)	80 (20.00)	400 (100)
7 Hire-Purchase Scheme	70 (17.50)	174 (43.50)	70 (17.50)	86 (21.50)	400 (100)
8 Gold Loan	76 (19.00)	153 (38.25)	70 (17.50)	101 (25.25)	400 (100)

Source: Survey Data

Figures in brackets represent percentage

#### 5.4.2 Popularity and Attractiveness

Though KSFE has been established as a Chit institution, as part of diversification, it has introduced a number of other schemes to cater to the needs of different categories of people. Table 5.29 shows that, an overwhelming majority (73.13 %) of the subscribers views *Chitty* as the most attractive scheme of KSFE. *Sugama* deposit (5.63 %) and fixed deposit (1.25 %) are the other attractive schemes mentioned in the order of importance. Occupation-wise analysis also shows similar trends. The attractiveness of Chits was the highest for the business class and least for the Agriculturist. For the farmers, *Sugama* appeared to be more attractive as compared to other occupation categories. Our survey among the KSFE employees also showed similar picture.

**Table 5.29****Popularity and attractiveness of KSFE Schemes among Subscribers**

Schemes	Agriculture	Business	Salaried Class	Others	Total
Chit Schemes	12 (63.16)	21 (80.77)	67 (72.83)	17 (73.91)	117 (73.13)
Fixed Deposit	- (0.00)	- (0.00)	1 (1.09)	1 (4.35)	2 (1.25)
Hire purchase	- (0.00)	- (0.00)	1 (1.09)	- (0.00)	1 (0.63)
House Loan	- (0.00)	- (0.00)	- (0.00)	1 (4.35)	1 (0.63)
<i>Sugama</i>	3 (15.79)	1 (3.85)	4 (4.35)	1 (4.35)	9 (5.63)
No Opinion	4 (21.05)	4 (15.38)	19 (20.65)	3 (13.04)	30 (18.75)
Total	19 (100)	26 (100)	92 (100)	23 (100)	160 (100)

Source: Survey Data

Figures in brackets represent percentage

**Table 5.30****Popularity of KSFE Schemes as Ranked by Employees**

No	Schemes	Rank
1	<i>Chitty</i>	1
2	<i>Chitty loan</i>	2
3	Fixed deposit	3
4	<i>Sugama</i>	4
5	Hire purchase	5
6	Gold loan	6
7	House loan	7

Source: Survey Results.

Majority of the employees also consider *Chitty* as the most popular and profitable scheme of the company (Rank 1), followed by *Chitty loan* (Rank 2). The other schemes of the Company in the order of popularity are Fixed Deposit, *Sugama*, Hire Purchase, Gold Loan and House Loan. Though KSFE has diversified its operations, some of the schemes are not attractive. The poor contribution of these schemes to the total revenue of the Company substantiates this fact. (See Chapter 4, Table 4.25) *Sugama* Deposit Scheme,

similar to the Savings Bank Account is a very competitive product and so it warrants appropriate strategies for popularisation.

### 5.4.3 Quality of KSFE Schemes

Opinions expressed by the subscribers as well as the employees on the main drawbacks of different schemes are of vital importance. We have already seen that Chit scheme is the core business of KSFE. Yet 83.4 per cent of the subscribers consider complicated formalities (53.4%) and unscientific security norms (30%) as distinct problems of the KSFE Chit Scheme, followed by fixed ceiling on discount, long queue for cash remittance, the issue of Account Payee Cheque for the prize money and the indifferent attitude of the Staff. The details are shown in Table 5.28 . Responses of 253 subscribers who have direct association with KSFE are depicted in Table 5.31.

**Table 5.31**  
**Problems Faced by KSFE Schemes: Subscribers' views**

No.	Schemes Problems	Hire Purchase	House Loan	Fixed Deposit	Sugama Deposit	Gold Loan	Chit Loan	Chitty Scheme
1	Not attractive	123(48.9)	139(55)	-	-	-	-	-
2	Security norms	-	-	-	-	-	20 (7.9)	76(30.0)
3	High Rate of interest	83(32.7)	101(40)	-	-	123(48.9)	203(80.2)	-
4	Procedural Delay	26 (10.2)	13 (5)	16(6.4)	-	-	30 (11.9)	-
5	Complicated Formalities	-	-	-	-	-	-	135(53.4)
6	Account Payee Cheque	-	-	182(71.8)	-	-	-	8(3.2)
7	Fixed Ceiling on Discount	-	-	-	-	-	-	16(6.3)
8	Lack of Public Awareness	21(8.2)		13(5)	131(51.6)	83(32.7)	-	-
9	Long queue at cash counter	-	-	26(10.3)	65(25.8)	-	-	14(5.5)
10	Indifferent Attitude of the Staff	-	-	-	-	-	-	4(1.6)
11	No problem at all	-	-	16(6.4)	57(22.6)	16(6.4)	-	-
	Total	253 (100)	253(100)	253 (100)	253 (100)	253 (100)	253 (100)	253(100)

Source: Survey Data. Figures in Parenthesis show percentage.

Specifically, on the problems of KSFE Chits the subscribers and the employees have similar views. The details on the opinion expressed by the employees on the problems of Chit scheme are given in Table 5.32.

#### **5.4.4 Drawbacks of the Loan Schemes of KSFE**

- a) **Hire purchase scheme:** The Hire Purchase scheme was considered as unattractive to 48.9 per cent of the subscribers and 32.7 per cent considered high rate of interest as another major difficulty of the scheme. 10.2 per cent considered procedural delay as yet another problem.
- b) **House loan scheme:** House loan scheme of KSFE has been observed unattractive (55%) when compared with similar schemes of other institutions mainly due to the high rate of interest.
- c) **Chit loan scheme:** The main problems of the KSFE Chit loan scheme are the high rate of interest (80.2%) and procedural delay (11.9%).

Thus the customers of KSFE in general categorically state that the rate of interest charged by the institution on its various schemes has been rather high. The two schemes, viz, Hire Purchase and House Loan are considered not at all attractive by the respondents. The employees themselves observed that the House Loan Scheme of KSFE is not attractive especially when compared with similar schemes of banks and other financial institutions. Besides, they also felt that the rate of interest is high on its various schemes (See Table 5.32).

#### **5.4.5 Drawbacks of the Deposit Schemes of KSFE**

The paying back of Fixed Deposit at maturity by Account Payee Cheque (71.8%) has been observed as the main inconvenience of the Fixed Deposit scheme. (See, Table 5.31). The other problems of the Fixed Deposit scheme are the procedural delay and lack of public awareness. The problems highlighted on the *Sugama* deposit scheme have been lack of public awareness (51.6%) and procedural delay (25.8%).

#### 5.4.6 Opinion of Employees on Problems Faced with Respect to KSFE Schemes

Table 5.32 gives the scheme-wise analysis of the problems pointed out by the employees of KSFE.

**Table 5.32**  
**Problems Faced by KSFE Schemes: Opinion of Employees.**

No.	Schemes Problems	Chitty Scheme	Hire Purchase	House Loan	Chit Loan	Gold Loan	Sugama Deposit	Fixed Deposit
1	Procedural Delay	57 (34.5)	17 (10.3)	24 (14.5)	4 (2.4)	2 (1.2)	3 (1.8)	1 (.60)
2	Unscientific Security Norms	35 (21.2)	3 (1.8)	2 (1.2)	-	1 (.60)	-	-
3	Indifferent Attitude of the Staff	2 (1.2)	5 (3.0)	2 (1.2)	-	-	-	-
4	Long queue at cash counter	17 (10.4)	7 (4.2)			1 (.60)	4 (2.4)	7 (4.2)
5	High Rate of Interest	-	17 (10.4)	27 (16.4)	62 (37.6)	19 (11.5)	-	-
6	Absence of Company Tie up	-	14 (8.5)	-	-	-	-	1 (.60)
7	Account Payee Cheque	13 (7.9)	-	-	2 (1.2)	1 (.60)	-	25 (15.2)
8	Absence of Competitive Rate of Interest for Deposits.	-	1 (.60)	1 (.60)	1 (.60)	-	3 (1.8)	15 (9.1)
9	Lack of Public Awareness	1 (.60)	13 (7.9)	4 (2.4)	12 (7.3)	43 (26.1)	57 (34.6)	19 (11.5)
9	Not Attractive when compared with other Institution	-	19 (11.5)	26 (15.8)	4 (2.4)	7 (4.2)	5 (3.0)	3 (1.8)
10	Not Responded/No Problem	38 (23)	69 (41.8)	79 (47.9)	76 (46.1)	91 (55.2)	93 (56.4)	94 (57)
	Total	165 (100)	165 (100)	165 (100)	165 (100)	165 (100)	165 (100)	165 (100)

Source: Survey Data.

Figures in Parenthesis show percentage.

Though 23 per cent of the employees find no serious problem with KSFE Chits, 55.7 per cent consider procedural delay and unscientific security norms as the distinct problems of the Chit scheme. The other important problems of the Chit scheme are long queue for cash remittance, cheque payment of prize amount and indifferent attitude of the staff.

As far as the House Loan Scheme, and Hire purchase scheme of KSFE is concerned, the employees themselves observe them as not attractive,

especially when compared with the similar schemes of banks and other financial institutions. Besides they feel that the rate of interest is very high. The distinct problems of KSFE gold loan scheme have been its lack of public awareness and high rate of interest. The majority of the employees view the major problem of the KSFE *Chitty* loan scheme as the high rate of interest.

At the same time, 57 per cent of the KSFE employees find the Fixed Deposit scheme of the Company as free from grave problems. But 15.2 per cent consider the Cheque payment of money at maturity as a problem. Another 11.5 per cent view lack of public awareness as a matter of great concern. The *Sugama* Deposit scheme though attractive, lacks public awareness (34.6%). Another practical difficulty has been the long queue at the counter for remittances and withdrawals, since all schemes are operated at a single window counter. This reveals that Deposit schemes of KSFE, though attractive suffer from certain operational difficulties.

Summarising the main problems faced by the various schemes of KSFE, it is seen that Hire Purchase and House Loan are the less attractive schemes of the Company. Schemes with high interest cost are *Chitty* Loan, Hire Purchase, House Loan and Gold Loan. Schemes with complicated security norms are *Chitty* and *Chitty* Loan. Procedural delay is a major problem faced by all schemes of KSFE. *Sugama*, Fixed Deposit and Gold Loan are the schemes considered comparatively problem free.

#### **5.4.7 Competitors To KSFE**

There are different types of institutions offering Chits to the public and there exists intense competition among them. Since this study is with special emphasis on KSFE, an enquiry has been made on the main competitors to KSFE. (The opinions of both subscribers as well as the employees of KSFE have been used for this purpose.) The Chit subscribers were asked to make a comparative assessment of KSFE Chits with co-operative Chits and also with private Chits.

**Table 5.33****Subscribers' Assessment of KSFE Chits with Co-operatives**

Options	Frequency	Percentage
KSFE is better	168	(42.00)
Co-operatives are better	164	(41.00)
Both are similar/same	66	(16.50)
Both are bad	2	(0.50)
Total	400	(100)

Source: Survey Data

The comparative assessment of KSFE with co-operative Chits reveals that 168 subscribers (42%) consider KSFE as better and 164 (41%) consider co-operative Chits as better. Only 16.5 per cent have equal preference for both KSFE and Co-operatives. What is worse is that KSFE does not appear to have any mileage over co-operatives over the Chit business. Thus it clearly reveals that the main competitor of KSFE Chits has been the Chit schemes of the Co-operatives.

**Table 5.34****Subscribers' Assessment of KSFE Chits with Private**

Options	Frequency	Percentage
KSFE is better	273	68.25
Private is better	83	20.75
Both are similar/same	39	9.75
Both are bad	5	1.25
Total	400	100

Source: Survey Data

The opinion of subscribers on KSFE Chits and Private Chits reveals a clear preference (68.25%) for KSFE. Only 20.75 per cent consider Private Chits as better.

Opinion of employees on competitors to KSFE Chits also agrees with that of subscribers. 48.5 per cent of the employees consider co-operative societies or banks, which conduct conventional Chits together with 'Chit like schemes' of MDS or MBS as the strongest competitor to KSFE. Private Chit institutions are (41.8%) also a threat to the Company.

**Table 5.35**

**Opinion of Employees on Competitors to KSFE**

No.	Institutions	Frequency	Percentage
1	Cooperatives	80	48.5
2	Private chits	69	41.8
3	Informal chits	16	9.7
	<b>Total</b>	<b>165</b>	<b>100</b>

Source: Survey Data.

**5.5.1 Assessment Of Chit Funds**

Each type of Chit Fund has its own special features, which makes it different from other Chit Funds. An attempt has been made to assess the reasons for preferring a particular type of Chit by the subscribers. Based on the experience and awareness of the subscribers on various Chit Funds, the response of all the 400 subscribers have been analysed for an assessment of Chit Funds. The important success and failure factors of different Chit Funds have been analysed through the preferences revealed by the subscribers. This section ends with a Chit Funds rating analysis.

**Table 5.36: Assessment of Chit Funds**

**5.36A. Reasons to Prefer KSFE Chits**

Reasons	Average Score	Rank
1. Safety Aspect	5.92	1
2. Big Sala	4.89	2
3. Better Service (facilities)	4.63	3
4. Transparency and openness	4.58	4
5. Prompt Payment	4.38	5
6. Low Foreman Commission	3.86	6



### 5.36 B. Reasons to Prefer Co-operative Chits

Reasons	Average Score	Rank
1. Better Service	4.70	1
2. Salary deduction/Door/Daily collection	4.61	2
3. Prompt Payment	4.55	3
4. Payment before 45 <sup>th</sup> day	4.36	4
5. Mutual Help	4.30	5
6. Less malpractices	4.21	6

### 5.36 C. Reasons to Prefer Private Chits (Kerala Registered)

Reasons	Average Score	Rank
1. Prompt Payment	5.04	1
2. Better Service	5.03	2
3. Cash Payment	4.72	3
4. Gifts/ Offers	4.48	4
5. Fixed Discount	3.33	5

### 5.36 D. Reasons to Prefer Private Chits (Outside Kerala)

Reasons	Average Score	Rank
1. Better Service	5.14	1
2. Personal contact	5.11	2
3. Flexible Discount	5.09	3
4. <i>Pooval</i> / Quarterly/Half Yearly Chits etc.	4.81	4
5. Need Based	4.68	5

### 5.36 E. Reasons to Prefer Informal Chits

Reasons	Average Score	Rank
1. Personal contact	5.48	1
2. Need Based	5.06	2
3. Daily Collection	5.03	3
4. Door Collection	4.90	4
5. Quick Payment	4.89	5

Source: Computed from Survey Data

Despite various critical failure factors like complicated formalities and security norms, (See Section 5.3.9 and Table 5.26) the reasons for preferring KSFE Chits in the order of ranking have been shown as safety

aspect, big *sala* Chits, better service, transparency and openness in auction (Table 5.36A).

Table 5.36B shows the crucial success factors of co-operative Chits as its better service including prompt payment and easy remittance of subscription by salary deductions or daily collection. The major failure factors of co-operative Chits are its subscription facility to members only and its small size of the Chit *sala* (capital).

Table 5.36C shows the crucial success factors of private Chit with registration in Kerala as its prompt and convenient payment of prize money and better service. But the critical failure factors like instances of exploitation and the small size of Chit capital make it a less attractive Chit Fund.

The distinct merits of private Chit Funds based outside Kerala, in Jammu, Faridabad, etc., are their better service and personal relations with the subscribers. The flexible discount system makes their Chits need based (Table 5.36D). But the chances of exploitation, cheating and lack of transparency are the critical failure factors of these Chit Funds.

Table 5.36E shows that personal contact with subscribers, the systems of flexible discounts making the Chits need-based and easy remittance facilities are the main advantages of informal Chits. Since these Chit Funds have no registration, chances of exploitation and cheating are high.

## **5.5.2 CHIT FUNDS RATING ANALYSIS**

The Chit Funds Rating Analysis has been done on the basis of the order of preferences revealed by the subscribers on the important success and failure factors of different Chit Funds. The analysis attempts to capture, in one number, an overall assessment of a Chit Fund's standing on the basis of the subscribers' preferences vis-a-vis their peers. Weights (points) have been assigned to these ranks (different levels) in reverse order to rationalise them.

To work out the Rating Analysis, ranking of parameters made by the subscribers has been used. Scores (points) have been given to these ranks

to rationalise them. Subscribers' preference as rank one scores 12 points (100%), as rank two scores 9 points (75%), rank three scores 6 points (50%) and rank four scores 3 points (25%). When two or more Chit Funds received identical ranks, they have been given the benefit of the same rank. This has been shown in Table 5.37.

**Table 5.37**  
**Chit Funds Rating Analysis (1to 12)**

Sl. No	Critical Success Factors	KSFE's Standing	Co-Op's Standing	Private (Kerala)	Private (Outside Rgd.)	Informal
1.	Safety/Security	12	9	3	-	-
2.	Better Service	3	12	9	12	6
3.	Prompt Payment	3	6	12	3	3
4.	Personal Contact	3	6	6	9	12
5.	Big Sala	9	-	-	6	-
6.	Salary Deduction/Door Collection	-	9	6	6	6
7.	Flexible Discount	-	-	-	6	9
8.	Transparency	12	6	3	3	-
9.	Payment Before 45 <sup>th</sup> Day	9	3	-	-	6
10.	Chit Loan	9	3	-	-	-
11.	Gift/Offer	3	-	3	6	3
12.	Cash Payment	-	6	6	3	6
	<b>Total</b>	<b>63</b>	<b>60</b>	<b>48</b>	<b>54</b>	<b>51</b>

Computed from Survey Data

The Chit Funds Rating Analysis (Table 5.37) shows that KSFE Chits stand with maximum success factors of 63 points, closely followed by Co-operatives with 60 points. This also reveals an unfavourable trend to private Chits with Kerala registration (48) and for informal Chit Funds (51). The Chit Funds Rating Analysis reveals that the critical success factors of KSFE are its safety/security aspect and transparency in business, whereas better service forms the critical success factor of co-operatives. The private Chits with registration in Kerala are preferred for their prompt payment whereas better service forms the critical success factor of private Chits with

bases outside Kerala. The main reason for preferring informal Chits is the personal contact and good relations by the foreman with the subscribers.

The narrow difference in the overall rating between various Chit institutions point to the fact that each of them has a niche market and specialities which continue to help them to survive despite the tough competition that exists.

### **Conclusion**

The profile of Chit subscribers in Kerala shows the dominance of the middle-aged group and middle-income group as the subscribers. It also reveals the association of the educated class, the salaried and agriculturists, with registered Chit Funds like KSFE and Co-operatives.

The analysis reveals that the main reasons for joining Chits are their potential to provide future savings in advance, convenient and contractual form of savings and dual option for saving and borrowing. Most of the Chit subscribers have simultaneous Chit subscription in more than one Chit institution and long periods of association with Chit Funds. This indicates the popularity of Chit Funds.

Each type of Chit institution has its own success factors capable of attracting subscribers. Similarly the critical failure factors of Chit Funds pose difficulties to the subscribers. The most important reason for preferring KSFE Chits has been its safety aspect while for the competitors, their better service. The complicated formalities, difficulty in providing required security and the indifferent attitude of the staff are the major failure factors of KSFE. Security norms, small size of the Chit *sala* and the limitation that the scheme is open to members only are the problems of Co-operative Chits. Exploitation, safety concerns and instances of cheating are the reasons for not preferring private and informal Chits despite their personal touch and prompt services. The fact that malpractices occur mainly from informal and unregistered Chit Funds necessitates the strict enforcement of the *Chitty* Acts. A thorough perusal of

the utilisation pattern of prize money shows that, the majority uses the amount for productive purposes.

The comparative assessment of peer Chit Funds based on the preferences of the subscribers on different aspects shows a trend distinctively in favour of KSFE followed by Co-operatives. It also points to the existence of tough competition in the Chit Funds arena, requiring suitable responses from the major players.

## **Notes and References**

1. Chit is a contract or agreement between the Foreman and the Subscribers for mobilising the savings of the group and lent out the same to one of the members on the basis of the contract agreed upon.
2. Data regarding the malpractices of private Chit companies for the period 1990-2000 was collected by District Crime Record Bureau, Ernakulam Rural District Limit, 2001.
3. Quoted in the Malayalam Daily Newspaper, The 'Mathrubhoomi', Cochin, 13<sup>th</sup> March 2000, p.9.

## **CHAPTER SIX**

### **CHIT FINANCE**

#### **Problems, Challenges and Opportunities**

An elaborate analysis and appraisal of Chit Finance in Kerala has been made in the previous chapter. This chapter which consists of four parts presents the major problems, challenges and opportunities of Chit Finance in general and of KSFE in particular. The first part deals with the problems of Chit Finance in general. An attempt has also been made in this section to review the regulatory aspects of Chit Finance by comparing the State and Central Chit Acts. The problems of KSFE have been presented in Part II. Part III gives an industry analysis of Chit Funds by using the Five Forces Model, and part IV attempts a competitive analysis of the Industry using BCG Growth-Share Matrix and SWOT Analysis.

#### **PART I**

##### **6.1 PROBLEMS AND CHALLENGES IN CHIT FINANCE**

The problems in the realm of Chit Finance are partly due to the nature of the business and partly due to certain provisions in the Chit Acts. In the first section of this part we highlight the major problems in Chit Finance. The problems that arise out of the weaknesses in the prevailing *Chitty* legislation in the State, is brought out by comparing with the relevant provisions in the Central Chit Funds Act. The problems that arise due to the malpractices by the foremen are also analysed in this part. The review of the Chit Acts and the data from both primary and secondary sources form the basis for the analysis of this section.

### **6.1.1 Lapses in the Kerala *Chitties* Act, 1975**

No law is valid and suitable for all times; it needs amendment from time to time. The Kerala *Chitties* Act has not been amended till 1<sup>st</sup> April 2002 during the last 27 years. Our survey has revealed that the important lapses in the Act that cause problems are small *sala* of the *Chitty*, fixed ceiling on discount, cumbersome registration formalities for starting Chits, procedural delay, difficulty in finding substitutes if subscribers discontinue and the need for making payment from their-own pocket if subscribers have defaulted.

### **6.1.2 Small Chit *Sala* (Capital)**

Section 3(5) of the Kerala *Chitties* Act provides that the Chit amount in the case of any one Chit conducted by a foreman shall not exceed Rs.25,000. This has been the case for the last 27 years till the 2002 amendment. In the absence of the revision of this limit, the tendency has been to float unregistered Chits or to start Chits with 'outside'<sup>1</sup> registration. The growth of this type of Chit Funds without furnishing securities creates many problems and deprives the State Government of its revenue. But this handicap of limit to Chit amount is not applicable in the case of KSFE.

### **6.1.3 Ceiling on Discount**

To discourage unhealthy bidding, Section 7(4) of the Kerala *Chitties* Act insists on the ceiling of 30 per cent discount of the Chit amount. But the urgent need for funds by two or more subscribers may result in one of them getting the prize amount and others may be disappointed and often forced to seek high-cost alternative. It may be pointed out that this provision in the Kerala *Chitties* Act is more restrictive when compared to the provisions in the Central Act, where the ceiling on discount is fixed at 40 per cent. Ideally, the forces of demand and supply should play their role in determining the discount subject to a limit. Hence there could be higher rate of discount at least for Chits of longer duration.





#### **6.1.4 Security to be Furnished by the Foremen**

Section 15(1) of the Kerala *Chitties* Act insists that the foremen should deposit in an approved bank an amount equal to the Chit amount or invest in Government securities of the face value of not less than one and a half times the Chit amount as security and transfer them in favour of the Registrar. This provision also seems restrictive and impairs the liquidity of the foreman.

#### **6.1.5 Flight of Foremen to other States**

The volume of Chit business of the private Chit Funds shows a decline from mid 1970's and forms only 6 per cent as on 10-3-2000<sup>2</sup>. This is not due to a real fall in their business, but because of the fact that they fall outside the official record. Majority of the private Chit foremen operate their business with bases outside Kerala but with the subscribers solely from the State. This causes loss of revenue to the State by way of registration fees. Moreover such Chit institutions are not obliged to keep security with the Registrar, which may be one of the reasons for malpractices seen in the field of Chit business. All the Chit foremen interviewed have highlighted the restrictive nature of the Kerala *Chitties* Act as the main reason for the large outflow of foremen to other states. This outflow of foremen to other states solely for the purpose of avoiding registration in Kerala is certainly a very dangerous trend.

#### **6.1.6 Large Informal Sector**

To a large extent, 'self-help groups' in villages and even urban centres conduct Chit business. An analysis of the reasons for the Chit failures would reveal that most of them were unregistered Chit Funds. The unorganised sector is guesstimated to be about four times the organised sector<sup>3</sup>. The growth of such a large unorganised sector without any State control, apart from causing loss of revenue to the state, causes difficulties to the subscribers. And as some fail, the 'cheat fund' stigma is affecting the whole Chit business.

### **6.1.7 Informal Chits by Registered Firms**

Many registered Chit Funds have been running unregistered Chits on the strength of their reputation. The main motive behind this practice is to save the registration fees and the security to be kept by the foremen. At the time of inspection, they produce only the accounts of authorised Chits. Failure to file the documents required by law with the *Chitty* Registrar in time, irregularities in settling the accounts of defaulted subscribers, delay in remitting un-disbursed prize amounts in the approved banks, non production of balance sheets and Chit records, or absence of audit are some of the frequently noticed defaults in the course of inspection of the accounts of Chit foreman by the departmental authorities <sup>4</sup>. The growth of the large number of informal Chit Funds and the instances of Chit failures resulting in heavy losses to the subscribers are the net results.

### **6.1.8 Defaults and Failures**

Lack of disciplined and organised growth of Chit Funds end with defaults and failures. The operation of Chit Funds by individuals and institutions without financial soundness causes Chit failure and misery to the subscribers.

### **6.1.9 Default and Arrears by the Subscribers**

Delayed payments and defaults especially by prized subscribers can choke the cash flow of the foreman. Economic recession and the consequent impact on the level of income of subscribers have affected Chit business unfavourably.

### **6.1.10 Absence of Regulatory Authority**

Absence of any Regulatory Authority to serve as an effective enforcer of standards and as a problem solver also creates difficult problems to Chit business.

Many of the lapses mentioned above, it is clear, can be linked to the provisions in the Kerala *Chitties* Act. It can also be seen that the private Chit foremen who have tried to escape from the restrictions of the Act have indulged in certain unfair practices creating difficulties to the subscribers and loss to the State's exchequer, besides bringing bad reputation to the entire industry.

## **6.2 UNFAIR PRACTICES BY FOREMEN**

The present environment in Chit business provides ample scope for exploitation of the needy by unscrupulous foremen. The malpractices in the sphere of Chits often go unnoticed, as their effects diffuse across several people over a long period. The victims (subscribers) being spread over a wide area either suffer their losses or are forced to be satisfied by realising only a portion of the due amount. Our study has revealed that enrolment of bogus subscribers, drawing of prizes in the name of bogus subscribers, delaying the disbursement of prize amount and similar malpractices exist in Chit business<sup>5</sup>. One of the provisions, which gives room for manipulation by the foremen, is the substitution of subscribers. The substitution procedure enables the foremen to start a Chit with less than the required number with a few bogus subscribers.

### **6.2.1 Chit Funds and Money Spinning Activities**

Many private foremen neither stop with one Chit nor wait for successful termination of the Chit, for the launch of new Chits. The money collected as subscription for the successive series of Chits, could be rolled to their-own advantage even for money lending business. They often fail to keep regular accounts<sup>6</sup>.

### **6.2.2 Disappearance of Foremen**

The occasional Chit failures because of irregularities, misappropriation or massive default and the consequent disappearance of Chit foremen cause socio-economic repercussions. The non-prized subscribers are the ultimate victims and organised action on their part for redemption is almost impossible/non-effective<sup>7</sup>.

### **6.2.3 Delay in the Disbursement of Prize Amount**

Financial prudence demands that the foreman should ensure prompt payment to subscribers even when some members do not pay the subscriptions promptly. *But unfortunately, one of the foremost malpractices has been centered on the disbursement of the prize amount. The disbursement of prize amount may be delayed deliberately by adopting dilatory tactics in the verification and acceptance of the security furnished by the subscribers.* Persons with inadequate means also start Chit Funds. Their intention might be to spin some quick money. But their operations have damaged the reputation of Chit Funds (See Chapter 5, Section 5.3.10).

### **6.2.4 Mixing Chit Business with other Businesses**

The Acts on Chits insist that no company carrying on Chit business shall conduct any other business. But studies have shown that Chit Funds which have obtained licenses also run money lending business unauthorised <sup>8</sup>. The majority of the foremen interviewed by the researcher have listed the main reasons for the failure of certain Chit companies as their entry into other fields of business like gold loan and money-lending and even risk-prone areas like the film industry.

## **6.3 COMPARISON OF CHIT ACTS**

In the earlier part of this section we have already made some comparative references to the Kerala *Chitties* Act, 1975 and the Central Chit Funds Act, 1982. In this section we propose to make a more detailed examination as to what extent some of the problems of Chit business in Kerala are due to the lapses/inadequacies of Kerala *Chitties* Act, even with the amendments made in April 2002 <sup>9</sup>. This section also brings out the superiority of the Central Act over the Kerala *Chitties* Act.

A comparative study of the Kerala *Chitties* Act, 1975 and the Central Chit Funds Act, 1982 shows a number of similarities and differences in its provisions.

Whereas the Kerala *Chitties Act, 1975* extends to the whole of the state of Kerala (repealing the Travancore *Chitties Act 1120*, the Cochin *Kuries Act VII of 1107* and the Cochin Starting of *Kuries [Restriction] Act, XII of 1120*), the Chit Funds Act, 1982 extends to the whole of India except the state of Jammu and Kashmir, repealing the various Acts in the States including the Kerala *Chitties Act, 1975*.

Many provisions of the Acts on Definitions of Chits, Chit Amount, Discount, 'Drawing', Foreman, Registrar, Subscriber, Ticket etc., are the same in both Kerala *Chitties Act* and in the Central Act. However, a number of provisions of the Chit Funds Act, 1982 seem less restrictive and more appealing (both to the subscribers and foremen) than the Kerala *Chitties Act* for the disciplined and healthy growth of the Chit Fund industry.

Section 4 (1) of the Chit Funds Act, 1982 which states that no Chit shall be commenced or conducted without obtaining the previous sanction of the State Government within whose jurisdiction the Chit is to be commenced or conducted or of such officer as may be empowered by that Government on this behalf and unless the Chit is registered in that State in accordance with the provisions of this Act may be sufficient to prevent the outflow of foremen to other States for registration. However this section has not been included in the Kerala *Chitties Act*, resulting in a large outflow of foremen to outside State. It is with the objective to prevent this flight of foremen that, The Kerala *Chitties Amendment Act 2002* inserted a sub-section after subsection 1 in section 4. The new subsection "(1) (a) insists that where a Chitty is registered outside the State and twenty percent or more of the subscribers are persons normally residing in the State, the foreman of the *Chitty* shall open a branch in the State and obtain sanction and registration under the provisions of this Act." The impact of this new subsection is yet to be assessed, as it is too early.

The adaptability of the Chit Funds Act, 1982 over the Kerala *Chitties Act, 1975* is also evident with respect to the provision on the rate of discount. Section 6 (3) of the Chit Funds Act, 1982 which stated that, the amount of discount in a *Chitty* shall not exceed 30 per cent of the Chit amount

has been amended in 2001 to enhance the ceiling on discount to be foregone by a prized subscriber to 40 per cent. The same provision in the Kerala *Chitties* Act, Section 7 (4) still insists that the amount of discount in a Chit shall not exceed 30 per cent of the Chit amount (See, our discussion in 6.1.3.).

Provision on keeping Minimum Capital (Section 8(1)), creation of a reserve fund out of the balance of profit (Section 8 (3)), prohibition of transacting business other than Chit business by a Company (Section 12 (1)) and restriction on the utilization of fund collected in respect of such business (Section 14) are present only in the Central Chit Funds Act. The above provisions will be highly useful for the disciplined growth of the Chit Fund industry and to safeguard the interests of the subscriber and the foreman. But this section is not included in the Kerala *Chitties* Act, resulting in default, diversion of funds and instances of failure of Chit Funds.

Section 13 (1, 2a, 2b and 3) of the Central Chit Funds Act explains the provision on aggregate amount of Chit. The Chit Funds (Amendment) Act 2001 has amended the original Act of 1982 in order to enhance the aggregate ceiling amount commenced or conducted by a foreman other than a firm or association of other individuals or a company or co-operative society from Rs.25,000 to Rs. 1 Lakh. It also increased the ceiling on aggregate Chit amount conducted by a firm or association from Rs. 1 Lakh to 6 Lakhs. In all other cases, it has been raised from a ceiling of Rs.25,000 with respect to each partner or individual to Rs. One Lakh. The above mentioned Section 13 of Chit Fund Act, 1982 seems better and more acceptable both to the foremen and the subscribers than Section 3 (5) of the Kerala *Chitties* Act or even the amended Kerala *Chitties* Act 2002, which has removed the ceiling on Chit amount altogether. This removal might have dangerous repercussions especially in the case of a Chit failure where the subscribers lose huge amounts. So it is better to have a ceiling on the aggregate Chit amount that the private Chit foreman can conduct as in the case of the Central Act <sup>10</sup>.

Section 14(1) of the Central Act on the utilization of funds insists that no foreman shall utilize the funds collected in respect of such business,

except for carrying on Chit business, or for giving loans and advances to non-prized subscribers on the security of subscriptions paid by them or investing in trustee securities or making deposits with approved banks mentioned in the Chit agreement. This provision can protect the Chit Funds from any failure and provide security to the subscribers. But unfortunately this provision too has not been included in the Kerala *Chitties* Act.

Section 19 of the Central Chit Funds Act on restrictions in opening of new place of business provides that no person carrying out the business of Chit Fund shall open its business in a new place without the prior permission and approval of the Registrar within whose territorial jurisdiction his place of business or principal place of business is situated. Before consenting, the Registrar shall consult the Registrar of the State in whose jurisdiction the new place of business is proposed to be opened. This provision may be sufficient for the healthy growth of Chit business in the State. The inclusion of this provision in the Kerala *Chitties* Act will prevent the present practice of starting Chits with bases outside Kerala to a great extent.

The provision on security to be kept by foreman is more restrictive in the Kerala *Chitties* Act than in the Chit Funds Act, 1982. Section 20 of the Central Act has been amended to provide that the deposit in the name of the Registrar shall be an amount equal to 50 per cent of the Chit amount in cash kept in an approved bank and the balance 50 per cent of the Chit amount in the form of bank guarantee. But the Kerala *Chitties* Act (Section 15) requires that every foreman shall deposit in an approved bank an amount equal to the Chit amount or invest in Government securities with the face value of not less than one and a half times the Chit amount.

Section 73 of the Central Act explaining the advisory role of RBI and Section 87 providing power to the State Government to exempt any person or class of persons or any Chit or class of Chit from all or any of the provisions of this Act are the other novel provisions of the Central Act. Section 70A in the Kerala *Chitties* Act explaining the power of the Government to exempt any Company owned by the Government or Co-

operative society from all or any of the provisions of the Act is similar to Section 87 of the Central Chit Funds Act. But Section 73 of the Central Act explaining the advisory role of RBI is not included in the Kerala *Chitties* Act.

Many of the provisions of the Central Chit Act, which seem better for the phenomenal growth of the Chit Fund industry, are not included in the Kerala *Chitties* Act. The Kerala *Chitties* Act is still restrictive even with the amendment of the Act in April 2002. At the same time, the Central Chit Funds Act is more subscriber as well as foreman friendly. In fact, our discussions with the foremen revealed that majority of them are in favour of the implementation of statutory regulations for the orderly conduct of Chit business. However, they were more in favour of the implementation of the Central Chit Funds Act in Kerala because of its less restrictive and distinct features of prudential regulations as compared to the Kerala *Chitties* Act, 1975.

## **PART II**

### **6.4 PROBLEMS AND CHALLENGES OF KSFE AS A CHIT FUND COMPANY**

KSFE is a profit making State-owned Chit Fund Company and also the leader of the Chit Fund business in the formal sector. In this part, an attempt has been made to analyse the major problems and challenges faced by the Company. Both primary and secondary data and the discussions with the top officials of KSFE apart from our discussions in Chapter IV have been used for this analysis.

1. As seen in Chapter IV, the capital base of the Company is not adequate. KSFE with an annual business turnover of Rs.2,830 Crore as of 2000-2001 operates with a mere Rs.3 Crore equity capital and with a net worth of Rs.7.5 Crore. The percentage of net worth to the total borrowed funds has been continuously declining due to an increase in the volume of the latter. (See, Chapter 4, Table 4.1).
2. Poor customer service in terms of procedural delay, cumbersome security norms, problems in long queue for cash payment, delayed payment of prize money, insistence on cheque payment, absence of daily and door



collection, etc., adversely affect the image of the Company and its reputation, despite its safety aspect as a government Company. (See, Chapter 5, Table 5.26)

3. Absence of computerisation creates operational difficulties. Computerisation can offer better service at greater speed. Computerised accounting, inter branch information facility through networking and better control system at the Head Office are yet to be realised.
4. Training facility to the staff has been desperately inadequate. Many employees are not aware of the recent changes taking place in the financial sector. The majority of the KSFE employees (60.6%) considers the present training facilities as inadequate and considers it a matter of urgency. Lack of clarity on their part on the norms and terms of the various schemes causes loss of time and inconvenience to the customers.
5. The indifferent attitude of the staff towards the customers affects the efficient working of KSFE. The Chit subscribers have clearly revealed the indifferent attitude of certain staff as an important reason for not preferring KSFE Chits. (See Chapter 5, Table 5.26)
6. Discussions with officials of KSFE reveal that strong labour unions and the sense of job security seem to have adversely affected the efficient functioning of KSFE. The introduction of new schemes like daily door collection of Chits and even computerisation has been delayed due to their interference.
7. The problem of default is a serious matter affecting the smooth operation of the Company and is an index of its administrative inefficiency. In the case of New *Chitty* Loan the level of non- performing assets is 17 per cent. This is despite the fact that there has been 11.3 times increase in the volume of revenue recovery of debtors, from Rs.244 Lakhs in 1992-93 to Rs.2,768 Lakhs in 1999-00 (See Chapter 4, Table 4.26 and 4.28).
8. KSFE has concentrated its operation in urban and semi-urban centres. Thus a very large proportion of the credit requirements of the rural areas are still in the hands of the moneylenders and informal Chit Funds. A more realistic

way of looking at the strengths of KSFE is to enquire whether all the sections of the rural population have been freed from the clutches of the moneylenders and informal Chit Funds. With more branches or extension counters in rural areas, KSFE can fulfill this social objective.

9. The Company has still not been able to implement one of the important objectives to be pursued by it on its incorporation, namely, the business of general and miscellaneous insurance of any kind. This is especially so, in the light of the emerging economic environment with the opening up of insurance sector, with commercial and even co-operative banks jumping in or planning to do so.
10. Though the Company has made diversification of schemes, many loan schemes are not attractive or popular and thus contribute only very little to the total revenue of the Company. (See, Chapter 4, Table 4.25)
11. KSFE, being a government Company, has been subject to political interference at different levels, which causes delay in implementing its decisions. The hierarchical structure<sup>11</sup> of administration also causes delay in decision-making and affects speedy implementation. Political interference and pressure are common in transfer cases, in delaying the Revenue Recovery and so can affect the smooth functioning of the branches.
12. Nominated Board of Directors, who have also other responsibilities in their own departments, may not be able to utilise their full potential for exploring the challenges and opportunities of KSFE. (See Chapter 4, Section 4) This probably is an important reason for the lack of dynamism and innovativeness in the Company.

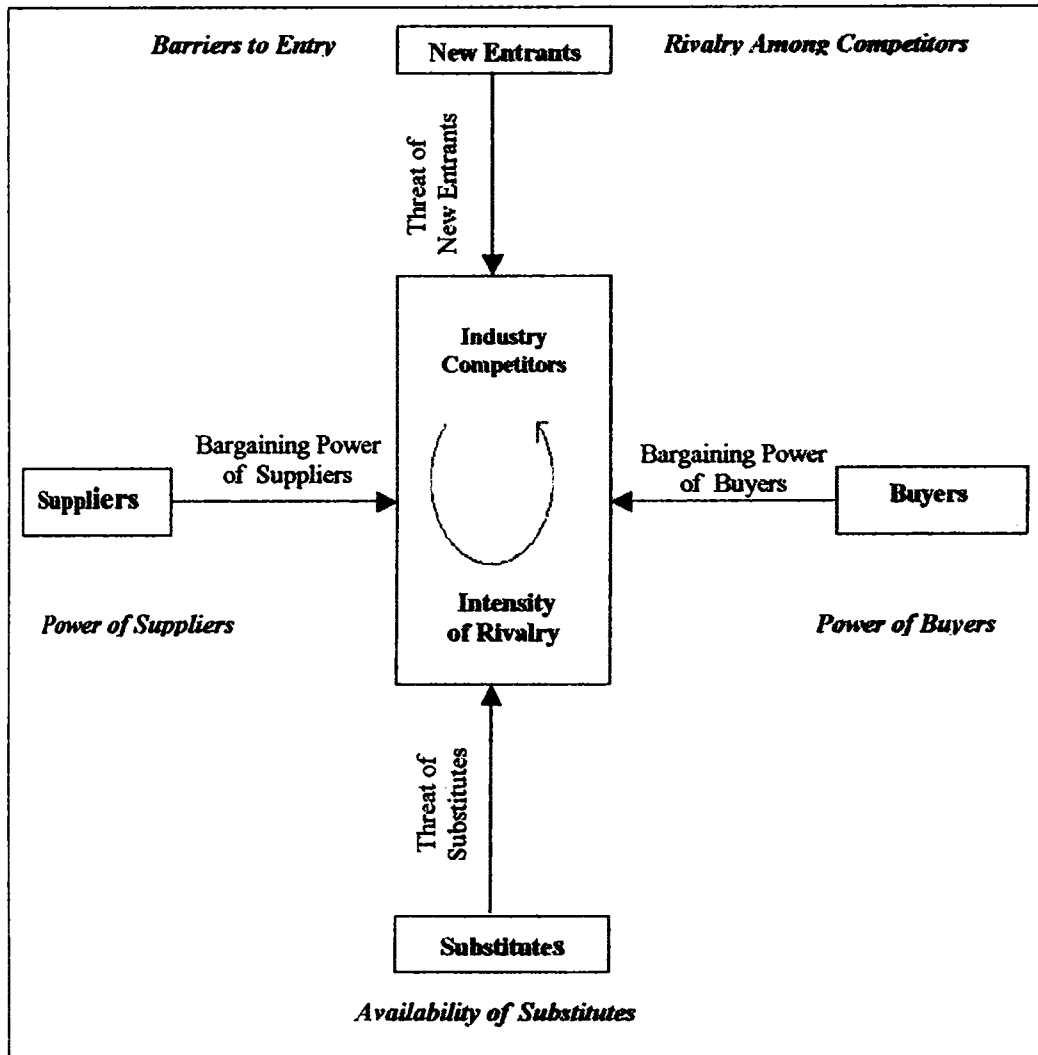
### **PART III**

#### **6.5 INDUSTRY ANALYSIS**

The Structure-Conduct-Performance<sup>12</sup> (S C P) framework suggests that a firm's conduct and performance are largely determined by industry structure. Strategy scholars have developed powerful models of environmental 'Threats and Opportunities' for describing industry conditions under which a

firm may be able to obtain competitive advantage. The most influential model on environmental threats has been Michael Porter's Competitive Strategy. His 'Five Forces' <sup>13</sup> (Threats) in an industry as (1) threat of entry (2) threat of rivalry (3) threat of substitutes (4) threat of suppliers and (5) threat of buyers is quite relevant here. Figure 6.1 describes this model.

**Figure 6.1 Five Forces Model**



Source: Michael E. Porter, "Competitive Strategy", New York, Free Press, (1980), p.4.

The operation of Chit Funds in India has been regulated by the Chit Funds Act 1982, which was amended in 2001. Sixteen State Governments and 6 Union Territories have adopted the Central Act and the RBI is pursuing with the other State Governments for early formulation of rules under the Central

Act. In Kerala, the Central Chit Funds Act is yet to be implemented and the Chit business activities are regulated by the Kerala *Chitties Act, 1975*.

### **6.5.1 Threat of Entry**

The Threat of entry into the Chit Fund Industry is high. KSFE with its exemptions and protections enjoyed as a Government Company has been diversifying its schemes to reap economies of scale and maintain its leadership. But the entry of co-operatives with 'Chit like schemes', Private and Informal Chit Funds with minimum administrative costs raises serious threats. KSFE with its 228 branch-network caters to the needs of various income categories by offering Chits of different *sala* and duration. But KSFE, as a Government Company possesses some of the demerits of a Government undertaking like procedural delay, unscientific security norms, lack of customer care and service, high administrative cost and lack of modernisation. The new entrants into the industry are taking advantage of the vulnerability of KSFE by focusing on these points. Therefore, KSFE should focus on creating entry barriers by providing better service and highlighting the safety aspect in the areas where competitors perform better.

To overcome the difficult provisions of the Kerala *Chitties Act*, the Private Companies have been starting Chits by opening branches nominally in Jammu and Faridabad and performing the real business in Kerala. If some provision can be introduced to plug this loophole in the Act, it may create entry barriers. In fact, the Kerala *Chitties Amendment Act, 2002* has been introduced for preventing such unhealthy practices (See Section 6.3). So KSFE could take the initiative to monitor the implementation of the Act.

The Private and Informal Chit Funds in the state offer attractive gifts or incentives to the subscribers, for which the actual expenses are not met from the revenue of the firm <sup>14</sup>. Customer Awareness Campaigns could be conducted by KSFE to reveal the real cost and return to the subscribers of such Chit Funds, with a view to providing entry barriers.

### **6.5.2 Threat of Rivalry**

The level of rivalry in the Chit business registered in Kerala has not been very high. KSFE has a share of 80 per cent in the volume of Chit business in the state. But if we consider the volume of Chit business in the informal sector <sup>15</sup> and those Chit Funds based outside Kerala, the level of rivalry is high. KSFE can focus on reducing the threat of rivalry by taking the initiative for plugging the loophole in the Act and thus control the growth of such informal Chit Funds with no regulation or outside registrations. At the same time KSFE should enhance its competitive edge vis-a-vis other Chit institutions by simplification of the complicated formalities and procedures, providing better facility and attention to the customers, introducing daily/weekly door collection of Chit subscription and by minimising the administrative cost of the Company. This is all the more important in the light of our finding from the Rating Analysis of the Chit Funds industry which showed that the differences in the rating given for various Chit institutions are not so broad as to be complacent.

### **6.5.3 Customers**

The subscribers of Chit Funds are from various walks of life including businessmen, traders, teachers, Government servants, professionals, other fixed income groups, farmers, registered organisations and so on. The secondary data shows an increase in the number of Chit subscribers and in the volume of business. The data collected shows an increase in the demand for KSFE Chits and a decrease in the number and business of private Chit Funds registered in Kerala. (See Chapter 3, Table 3.8) With more than 7 Lakh subscribers and an annual turnover of Rs.1,385 Crore, KSFE has been serving the needy through its network of branches as of 2000-01.

Compared to other Chit Funds KSFE has been catering to the needs of customers by offering Chits of different *sala* and of different durations. The Chit loan facility, which is unique to KSFE, could satisfy the urgent credit needs of non-prized subscribers. The diversification of various deposit

schemes and loan schemes enables the Company to attract more customers. By offering better service through simplification of procedures and security norms, more convenient ways of remittance of subscription through cheques, through the *sugama* account, inter-branch remittance, etc. and easy payment of prize money, the Company could attract more subscribers. For attracting more customers, KSFE has to improve the quality of its service by speedy sanction of loans, simplification of security norms, offering competitive rate of interest and introducing innovative schemes.

#### **6.5.4 Substitutes**

There are some close substitutes to the Chit scheme. Monthly Deposit Scheme and Mutual Benefit Scheme of co-operative banks and societies are nothing but the Chit schemes in different names. This change in nomenclature is for the purpose of escaping from the strict compliance with the *Chitties* Act. Recurring deposits of banks and post-offices have some similarity with the Chit scheme. Private Chit Companies also operate as finance companies and offer incentives/bonus/gifts, etc. to its customers and pause competition to KSFE. Though, not close substitutes, the financial sector has opened a wide multitude of new saving and investment avenues including tax saving instruments in the fields of mutual funds, insurance, and stock market. Our analysis on the economics of Chits have also pointed out that in the present environment of falling interest rates, Chitty as a medium of pure savings is in danger of losing its charm. To face the threat of substitutes the Company should think of innovations and introduce diversification of schemes. The important features of Chit schemes like dual option for saving and borrowing, providing future savings in advance, ability to fix the cost of borrowing, monthly dividends reducing the subscriptions, the aspect of forced savings, etc. make it a unique saving-cum-credit scheme. The above features of the scheme if fully exploited should enable the Chit Funds to increase the customer network.

### **6.5.5 Threat of Suppliers**

For a Miscellaneous Non-Banking Company, the suppliers are suppliers of finance. Since they have a lot of other investment avenues, their bargaining power is generally high. The switching cost is almost zero. The deposits mobilised under Government guarantee, loans from the Government and reserves and surpluses are the major sources of finance to the Company. In order to make KSFE more acceptable, its customer service should be improved. The loan schemes or deposit schemes offered by various financial institutions including banks at attractive terms and conditions, and the continuing general fall in the cost of funds (rate of interest) pose tough competition to the Chit Fund Industry.

### **6.5.6 Performance**

In the light of the 'Five Forces' analysis of the Chit Fund industry, it seems that the level of threat in this industry is not very high still the level of performance is rather high. The popularity of Chit schemes among the people in Kerala itself is an added advantage. Practically every household in Kerala has been associating with some Chit institution or the other.

## **PART IV**

### **6.6 COMPETITIVE ANALYSIS**

Since the present study is on Chit Finance with special emphasis on KSFE, it is apt to attempt a competitor analysis for KSFE<sup>16</sup>. BCG Growth-Share Matrix and SWOT analysis have been used in this part for the purpose of analysing the challenges and opportunities of KSFE vis-a-vis its competitors<sup>17</sup>.

Business strategies focus on improving the competitive position of a Company's or business unit's product or services within the specific industry or market segment that the Company serves. The business strategy asks how the Company or its units should compete in each industry. For the purpose of formulation of strategies for each Strategic Business Unit<sup>18</sup> (S B U), relevant

Critical Success Factors (C S Fs) have been identified and Company's position as Strong, Weak or Average of these factors are also assessed as shown below:

**Table 6.1 Critical Success Factors for Strategic Business Units**

**A: Chitty**

Critical Success Factors	Company's position		
	Strong	Weak	Average
1. Market Share of Chit in the Formal Sector	✓		
2. Share in the volume of Business of the Company	✓		
3. Profitability	✓		
4. Safety and security	✓		
5. Innovation for attracting customers			✓
6. Simple security norms			✓
7. Recovery positions			✓
8. General quality of service			✓

**B: Hire-Purchase**

Critical Success Factors	Company's position		
	Strong	Weak	Average
1. Share in the volume of Business of the Company			✓
2. Profitability		✓	
3. Innovation for attracting customers			✓
4. Recovery performance			✓
5. Simple security norms		✓	
6. General Quality of Service			✓
7. Interest rate charged		✓	

**C: Gold Loan**

Critical Success Factors	Company's position		
	Strong	Weak	Average
1. Share in the volume of Business of the Company		✓	
2. Profitability			✓
3. Innovation for attracting customers			✓
4. Recovery performance			✓
5. Simple security norms			✓
6. General Quality of Service			✓
7. Interest rate charged			✓



**D: Trade Finance Loan**

Critical Success Factors	Company's position		
	Strong	Weak	Average
1. Share in the volume of Business of the Company		✓	
2 Profitability		✓	
3. Innovation for attracting customers		✓	
4. Recovery performance		✓	
5. Simple security norms			✓
6. General Quality of Service			✓
7. Interest rate charged	✓		

**E: Housing Finance Loans**

Critical Success Factors	Company's position		
	Strong	Weak	Average
1. Share in the volume of Business of the Company		✓	
2 Profitability		✓	
3. Innovation for attracting customers		✓	
4. Recovery performance		✓	
5. Simple security norms			✓
6. General Quality of Service			✓
7. Interest rate charged			✓

**F: New Chitty Loans**

Critical Success Factors	Company's position		
	Strong	Weak	Average
1. Share in the volume of Business of the Company	✓		
2 Profitability	✓		
3. Innovation for attracting customers			✓
4. Recovery performance		✓	
5. Simple security norms			✓
6. General Quality of Service			✓
7. Interest rate charged		✓	

**G: Deposits**

Critical Success Factors	Company's position		
	Strong	Weak	Average
1. Share in the volume of Business of the Company			✓
2 Profitability			✓
3. Safety and Security	✓		
4. General Quality of Service			✓
5. Interest rate charged			✓

A more concise Competitor Analysis of KSFE is given in Table 6.2 below:

**Table 6.2**  
**Competitor Analysis**

Critical Success Factors	KSFE's Position Rating (1-10)	Competitor's Position Rating (1-10)	Importance of Improvement in Rating (L,M,H)	Affordability and Speed (L,M,H)	Competitors Ability Rating (L M H)	Recommended Action
1. Safety and Security	10	5 to 8	L	L	M	Hold
2. Interest / Finance charges on loans	8	4 to 9	M	H	H	Consider the competitor's rate
3. Interest / liquidity on deposits	8	5 to 7	L	L	M	Hold
4. Simplicity in the loan procedure	5	6 to 9	H	M	H	Simplification essential
5. Effective / practical security norms	6	6 to 9	H	M	H	To be improved
6. General quality of service	6	6 to 9	H	M	H	To be Improved by training and creating awareness
7. Innovative schemes to attract customers	6	6 to 9	H	M	H	To be improved
8. Branch network	7	5	M	M	L	There is further scope for expansion
9. Niche Marketing	3	6 to 8	H	H	M	Select and adopt
10. Efficiency of Recovery	5	7 to 9	H	H	H	Poor performance, Urgent action required
11. Customer orientation	5	7 to 9	M	M	H	To be improved
12. Social obligation	10	5 to 8	L	L	M	Hold
13. Modernisation	5	6 to 8	L	M	H	Urgent Action Needed.

Source: Based on Report of the Study Group to Enquire into The Problems Faced by The KSFE Ltd., School of Management Studies, Cochin University of Science and Technology, 1999 with necessary modifications and additions.

L = Low      M = Medium      H = High

To summarise, the competitor analysis for the Chit Fund Industry points to the following actions to be taken by KSFE for modernisation, branch networking, introduction of innovative schemes, effective and practical security norms, better quality of service and efficiency in recovery.

## 6.7 PORTFOLIO ANALYSIS

One of the most popular aids to developing corporate strategy in a multi business corporation is portfolio analysis. In portfolio analysis, top management views its product lines and business units as a series of investments from which it expects a profitable return. The product lines/business units form a portfolio of investment that top management must constantly juggle to ensure the best return on the corporation's invested money. One of the most popular approaches is the BCG Growth- Share Matrix <sup>19</sup>.

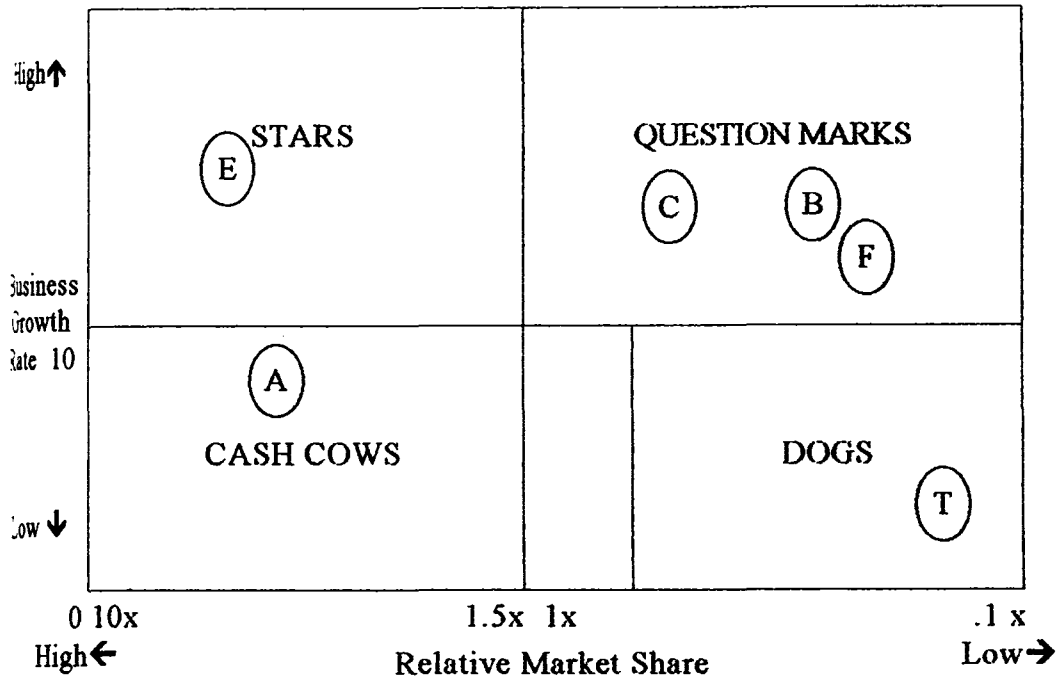
### 6.7.1 BCG Growth-Share Matrix

The Boston Consulting Group (BCG) Model, popularly known as the BCG Matrix and Growth Share Matrix, is based on two variables, viz.; the rate of growth of the product market and the market share held by the firm relative to its competitors <sup>20</sup>.

The vertical axis of the matrix measures the annual growth rate of the market and the horizontal axis shows the relative market share of the firm. Each of these dimensions is divided into two categories of high and low, making up a matrix of four cells. These four cells are the 'high growth - low market share cell' described as *question mark*, 'high growth - high market share cell' called *stars*, 'low growth - high market share cell' called *cash cows* and 'low growth - low market share cell' described as *dogs* <sup>21</sup>.

Figure 6.2 gives the BCG-Growth Share Matrix of KSFE and describes the various *stars*, *question marks*, *cash cows* and *dogs*.

**Figure 6.2 B C G Growth–Share Matrix of KSFE**



Note:- A = *Chitty* B = Hire Purchase C = Gold Loan T = Trade Loan  
 E = New *Chitty* Loan F = New House Finance Scheme.

Source: Based on B. Hedley “Strategy and Business Portfolio”, Long Range Planning (1997), p.12

Table 6.3 gives a better description of the four product cells of KSFE.

**Table 6.3  
 Product Cell**

Cell	Growth Rate	Market Share	Schemes	Symbols	Strategy
Question Marks	High	Low	HP, Gold Loan, House Loan.	B, C, F,	Build
Stars	High	High	NCL	E	Hold
Cash Cows	Low	High	<i>Chitty</i>	A	Harvest
Dogs	Low	Low	TFS	T	Disinvest

### 6.7.2 The Strategy

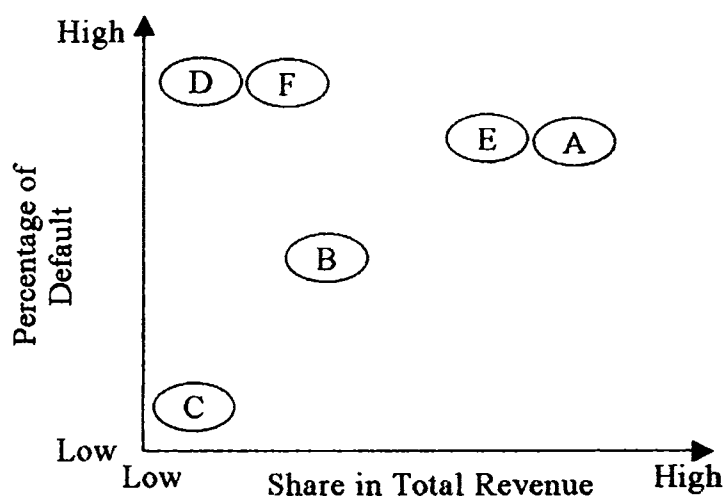
The B C G Matrix reveals that the contribution of Trade Finance Scheme to the total revenue of the Company as well as to the volume of business is negligible, and so not profitable (See Chapter 4, Table 4.25). But, Trade Finance Scheme can be retained due to its social obligation as supplementing the working capital requirements of small and medium traders and businessmen. Chitty and its allied scheme Chitty loan are the profitable and attractive schemes of KSFE. The appropriate strategy for them is to 'harvest' and hold respectively. The other loan schemes of the Company like hire purchase, gold loan, and house finance scheme necessitate urgent corrective and innovative measures to build them. Yet it needs to be realised that housing finance has become a cash cow for most of the financial institutions/banks.

### 6.7.3 Default- Revenue Matrix

Default-Revenue Matrix has been framed to analyse the current position of various schemes and to identify the strategic business units of the Company. An analysis of the Default-Revenue Matrix given in Figure 6.3 reveals that *Chitty* ranks first in the share of total revenue (31.42 %) during 1999-00 (See Chapter 4, Table 4.25), but it has a higher rate (20 %) of default. However, if we consider the default of collectable Chit amount<sup>22</sup> then the default rate is negligible (1.6%) (See Chapter 4, Table 4.27).

But in N C L, which is an allied product of Chitty and is contributing 30.16 per cent to the total revenue during 1999-00, the rate of default is very high at 20 per cent of the loan amount, (See Chapter 4, Tables 4.25 and 4.26). This is certainly a matter of serious concern to the Company and requires urgent corrective action.

**Figure 6.3**  
**Default – Revenue Matrix**



A = *Chitty*, B = HP, C = Gold Loan, D = TFS, E = NCL, F = HFS

From the point of view of revenue, the contribution of loan schemes like Trade Finance Scheme (1.52%), Hire Purchase (6.14%), Gold Loan (.58%), Fixed Deposit Loan (1.51%), House Finance Scheme (3.25%), New Fixed Deposit Loan (4.46%) are not attractive (See Chapter 4, Table 4.26). At the same time, the very high default rates of TFS (26%), HP (10%) HFS (26 %) and NFDL (19%) are matters of concern to the Company. As far as the gold loan is concerned, even though the share of revenue at present is negligible, the loss due to default is almost nil. Therefore gold loan scheme should be promoted. It also reveals the necessity for making the other loan schemes of the Company attractive to the public. The rate of default of NCL as already mentioned is very high. Since it is a fund-based product, the impact of mounting default will be severe.

On the basis of the current position of various schemes of KSFE as shown in the matrix above, we can project their future positions assuming no change in strategy.

- *Chitty* is the strategic business scheme of the Company.
- N C L as an allied product of Chit is the next best strategic business unit. But the mounting default rate poses threat to the growth of the scheme.

- The high default–low revenue share S B Us like hire purchase, house loan, trade finance loan and new fixed deposit loan need a closer scrutiny for corrective action.
- HP, Gold Loan, New fixed deposit loan and Deposit Schemes supporting and supplementing the strategic Chit scheme requires future growth and strengthening.
- The present position of T F S, T H F S is not satisfactory and need further redesigning and fine-tuning for making them viable.

## **6.8 SWOT ANALYSIS AND STRATEGY FORMULATION FOR KSFE**

Strategic management involves an analysis of the organisational factors including the strengths and weaknesses of the organisation, and environmental factors including threats and opportunities in the business environment. The business environment presents two main challenges to the enterprise, viz. the challenge to combat the environmental threats and to exploit the business opportunities. There are many forces in the environment, which influence the working of KSFE. These forces are classified under four groups: social, technological, economic, and political/legal.

### **6.8.1 Social Environment**

Social Environment is likely to create some opportunities because of the government ownership of the Company. Since it is the only Miscellaneous Non-Banking Company in the government sector with transparency and openness, customers definitely have more faith and confidence in the Company.

### **6.8.2 Technological Environment**

Technological environment is expected to create some sort of threat to KSFE in the near future. Absence of computerised accounting, network of branches and automation of the branches cause inconveniences to the customers and may affect efficient customer service. The minimisation of cost

along with business maximisation techniques is to be implemented in the Company for its future opportunities and competitiveness.

### **6.8.3 Economic Environment**

With the introduction of the new economic policy, which includes Liberalisation, Privatisation and Globalisation, the government is keeping away from many sectors and activities. The policy of the government now seems to be to act as a facilitator rather than as a provider of service as done earlier. Such a shift in the approach may lead to disinvestment of the Company even if it is the only one of its kind in the government sector in India. If such a situation arises, the Company has to forgo all the privileges enjoyed as a government Company. Such a change, if it happens may create some opportunities also. The lack of autonomy, the procedural delay, complicated formalities and other usual governmental hindrances may disappear. At the same time, the economic recession existing in the state and the lack of job security in the service sector may act as a threat to the Company.

### **6.8.4 Legal Environment**

At present many aspects of the legal environment are favourable to the Company. The Company has been exempted from some of the provisions of the Kerala *Chittes* Act, like *Chitty sala* limit, stamp duty exemption, etc. But there are also some limitations in the organisation structure, which keep KSFE subject to political and bureaucratic interferences. Though the amendment of the Kerala *Chitties* Act, 2002 deprives the Company of its monopoly of conducting big Chits, it infuses competitive spirit to face the challenges and threats from competitors<sup>23</sup>.

### **6.8.5 SWOT Analysis**

While Strengths are positive aspects internal to the entity, Weaknesses are negative aspects internal to the entity. On the other hand, Opportunities are positive aspects external to the entity and Threats are negative aspects external to the entity. Strengths, Weaknesses, Opportunities



and Threats of KSFE as a Chit Fund Company have been analysed mainly on the basis of the survey conducted among the Chit subscribers and among the employees. Discussions with the officials of KSFE have also been used for the analysis. The analysis is presented in Tables 6.4 and 6.5 given below.

Table 6.4 presents the various Strengths, Weaknesses, Opportunities and Threats of KSFE and Table 6.5 looks at Strengths and Weaknesses against their corresponding Opportunities and Threats. Table 6.5 explains how strengths of KSFE can be utilised to exploit the opportunities and overcome the threats. Besides, it also explains how to minimise weaknesses of the Company by exploiting its opportunities by overcoming the elements of threats to KSFE. Table 6.5 also presents the appropriate strategy in the light of these Strengths, Weaknesses, Opportunities and Threats.

**Table 6.4 SWOT Analysis for KSFE**

<b>Strengths</b>	<b>Weaknesses</b>
<ol style="list-style-type: none"> <li>1. Safety and Security due to State ownership</li> <li>2. Social Commitment</li> <li>3. Network of Branches</li> <li>4. Inter-branch remittance facility</li> <li>5. Big <i>Sala</i> (Chit amount)</li> <li>6. Loan Against <i>Chitty</i></li> <li>7. Various Schemes other than Chits</li> <li>8. Transparency and openness</li> <li>9. Large subscriber base</li> <li>10. Chits of different <i>sala</i> and duration</li> <li>11. Prompt Payment</li> <li>12. Revenue to the State</li> <li>13. Company Tie-up of HP scheme</li> <li>14. Professionally qualified personnel as top officials of the Company</li> <li>15. Generation of Employment</li> </ol>	<ol style="list-style-type: none"> <li>1. Complicated Formalities and Procedural Delay</li> <li>2. Security / Guarantee Problems</li> <li>3. Poor customer care</li> <li>4. Indifferent Attitude of the Staff</li> <li>5. Long Queue for Cash Remittance</li> <li>6. High Rate of Interest for Loans</li> <li>7. Cheque Payment of cash</li> <li>8. Lack of Need Based Service</li> <li>9. Absence of Door/Daily Chit</li> <li>10. Less Incentives/Gifts to Attract the Subscribers</li> <li>11. Thirty per cent fixed Discount on the Initial Instalments</li> <li>12. Delay in decision making</li> <li>13. High administrative cost.</li> <li>14. High default rate</li> <li>15. Less computerisation and modernisation.</li> </ol>
<b>Opportunities</b>	<b>Threats</b>
<ol style="list-style-type: none"> <li>1. Protection/Exemption from Kerala <i>Chitties Act</i></li> <li>2. Salary Deduction Provision</li> <li>3. Diversification in Financial services</li> <li>4. Malpractices/Exploitation in Private and in Informal Chits</li> <li>5. Prevalence of Unscrupulous Chit Foremen and 'Blade Companies' in rural areas.</li> <li>6. Falling rate of interest in deposit schemes</li> <li>7. Lower returns/ Illiquidity in real estate business</li> <li>8. Fluctuations in the stock/share markets</li> <li>9. Sluggish Mutual Funds</li> </ol>	<ol style="list-style-type: none"> <li>1. Need based service by competitors.</li> <li>2. Flexible discount in some other Chit Funds</li> <li>3. Prompt and quick payment by competitors.</li> <li>4. Attractive Gift/offer schemes from competitors</li> <li>5. Facility for door and daily collection by competitors</li> <li>6. New schemes like monthly deposit/monthly benefit schemes by co-operatives.</li> <li>7. Lower administrative cost for competitors</li> <li>8. General Economic Recession</li> <li>9. Risk of Privatisation</li> </ol>

**SWOT and Strategy for KSFE**

Strength / Weakness (SW)	Opportunity /Threat (OT)	Strategy
1. Government Ownership – Safety and Security, Transparency and Openness and Exemption from <i>Chitties Act</i>	Rapid growth of KSFE.	Expand the volume of Chit Business by starting daily/weekly Chit collection to attract business groups, start corporate Chits for companies with big sala of 25 Lakhs and 50 Lakhs, take initiative for the strict enforcement of the Amended Kerala <i>Chitties Act</i> to prevent operation of “outside” State registration.
2. Less modernisation and computerisation.	More efficient and speedy customer service by competitors	Introduce computerisation and interlink branches.
3. Network of branches and inter branch remittance facility	Large subscriber base, easier remittance and social commitment	Branch expansion especially in rural areas, extension counters or micro branches of KSFE.
4. Complicated formalities and procedural delay	Better and speedy service from the competitors.	Simplification of security norms, computerisation and better training facilities for expert service.
5. New Chitty Loan Scheme	Scope for diversified and innovative schemes	Promote growth in the volume of New <i>Chitty Loan</i> with minimum default and competitive rate of interest.
6. High default rate	Timely follow-up and diplomatic measures from competitors.	Open Default Cells in branches for strict and timely follow up.
7. Diversification of schemes other than Chit schemes	Increasing competition but scope for providing a financial market.	Redesign schemes especially House Loan scheme and Hire Purchase scheme to make them competitive.
8. Lack of need based service, long queue at the cash counter, cheque payment and absence of daily collection.	Quick service, door/daily collection and also payment from competitors.	Introduce daily/door collection through agents, replace cheque payment with cash upto One Lakh, additional cash counter and evening counter.
9. High administrative cost	Lower administrative cost for competitors	Lower the administration cost through scientific methods, branches in own building to avoid office rent and going for computerisation.

Summing up our discussion in this chapter, we have seen that the Chit business is facing several difficulties and problems that may prevent the smooth growth of the industry. A comparison of the Central Chit Funds Act with the Kerala *Chitties* Act has shown clear superiority of the Central Act and can be considered as both subscriber as well as foreman-friendly. The Chit Fund Industry Analysis has revealed the level of threat as not very high and the level of performance as quite satisfactory at present. BCG Growth-Share Matrix and the Default-Revenue Matrix reveal that Chit is the strategic business unit of KSFE followed by the Chit loan scheme. All other loan schemes of the Company need redesigning and fine-tuning. KSFE needs correction in its complicated formalities, procedural delay, high default rate and degree of modernisation. The SWOT Analysis for KSFE has highlighted the need for the better performance of the Company.

## Notes and References

1. According to the All Kerala *Chitty* Foremen Association, there are about 10,000 Chit companies operating in the State with bases 'outside' Kerala especially from Faridabad and Jammu, All Kerala Private Chit Foreman Association, News Bulletin, Trichur, Vol.1, No.1, 12<sup>th</sup> April (2002), p.1.
2. Government of Kerala, Legislative Interpretation, Registration Department, I.G of Registration, Trivandrum, (2000).
3. See, Senthil Kumar, K P. "Chitty Chitty Bang Bang", The Economic Times, Cochin, 12<sup>th</sup> August (2002), p. 6.
4. Based on discussion with the officials at the Registrar's office.
5. Based on discussions with Chit foremen and subscribers by the researcher. See also our discussion in Chapter 5 (Section 5.3.8) on malpractices by foremen.
6. See, Binu, Daniel. 'Urban Informal Credit Markets: Structure, Dynamics and Intermediation'. Ph D Thesis. Mahathma Gandhi University, Kottayam, (2000).
7. See, Section 5.3.8 in Chapter 5 for more details.
8. Binu, Daniel.op cit.
9. The Amendment of the Kerala *Chitties* Act on April 2002, Subsection (I) (a) The Kerala Finance Bill, 2002 - Amendment of Act 23 of 1975 - In the Kerala *Chitties* Act, 1975 (23 of 1975), 1<sup>st</sup> April (2002).
10. See, Manalel, James and Sallyamma, J. "Chit Chit Bang Bang", The Economic Times, Special Report, Cochin, 17<sup>th</sup> June (2002), pp.3-4.
11. The organisational set up is a three-tier system with the Head Office as the top controlling and coordinating body, the Regions constituting the intermediary level and the Branches at the base as profit generating centres.

12. Bourgeois, L J, Irene. M. D, and Stimpert, J L. *Strategic Management: A Managerial Perspective*, 2<sup>nd</sup> edition, The Dryden Press, (1999), p. 88.
13. Porter, Michael. *Competitive Strategy -Techniques for Analysing Industries and Competition*, The Free Press, New York (1980), p.4
14. The foreman's commission in the case of many private Chits has been fixed as 7 percent or even 10 per cent as against 5 per cent fixed by the Kerala *Chitties* Act. A portion of it is used for giving incentives like gold coins, consumer durables and even vehicles to prompt subscribers. Non-prized subscribers have been given a fixed discount in addition to auction discount. Another such gimmick is 'incentives with termination payment' where prompt subscribers who opt to take the Chit payment only on the termination of the respective group are entitled to a lucrative special incentive of 2.5 per cent of the Chit amount. (See, the Report of the Study Group to Enquire into The Problems Faced by The KSFE Ltd., School of Management Studies, Cochin University of Science and Technology, 1999).
15. No authentic official data is available on the volume of Chit business in the informal sector. But guesstimated to be about 10,000 Chit companies operating in Kerala without registration in the State. Chitty News, Bulletin of All Kerala Chit Formen's Association, Vol.1, No.1, 12<sup>th</sup> April (2002).
16. Porter, Michael, *Competitive Advantage* The Free Press, New York, (1985), pp1-12.
17. For this section, we have drawn heavily from the Report of the Study Group to enquire into The Problems Faced by The KSFE Ltd., School of Management Studies, Cochin University of Science and Technology, (1999).
18. Strategic Business Units (S B Us) are the schemes like *Chitty*, *Chitty* Loan, Hire Purchase, Gold Loan, Trade Finance Scheme, New Housing Finance Scheme and New Fixed Deposit Loan.
19. See, David, Hunger and Thomas, L Wheelen. *Strategic Management*, Sixth edition, Addison, Wesley, (1999). p. 147.

20. Bruce D. Henderson, The experience Curve – Reviewed. IV. The Growth Share Matrix of the Product Portfolio, Boston Consulting Group, Boston, (1973).
21. Hedley, B. *Strategy and Business Portfolio: Long Range Planning*, (1977), February, p.12.
22. Collectable Chit Amount is calculated by considering only the number of instalments and Chit subscription that is already paid. For example, in the case of a prized *Chitty* of One Lakh with 100 subscribers and monthly subscription of Rs.1,000 each, the collectable Chit amount after the 10<sup>th</sup> instalment for a subscriber is equal to  $1,000 \times 10 = 10,000$ . So the total collectable Chit amount equals  $Rs.10,000 \times 100 = Rs. 10,00,000$  .
23. The main competitors of KSFE are co-operatives, private Chits and informal Chits.

## **CHAPTER SEVEN**

### **FINDINGS AND SUGGESTIONS**

Chit Funds being a category of Non-Banking Companies, contribute to the value of financial markets in India. The present study examines motivational factors for preferring Chits and also particular types of Chit institutions. This study entitled "A Study of Chit Finance in Kerala with Special Emphasis on KSFE Ltd. " takes stock of the working of Chit Funds in general and KSFE in particular, makes a close examination of the regulatory framework of the Chit Funds in the State, reviews the performance of KSFE and attempts a comparative assessment of various Chit Funds. This concluding chapter attempts to present the important findings and suggestions of the study.

#### **7.1 TREND AND PATTERN OF GROWTH OF CHIT FUNDS**

There are evidences to show that a well-established Chit Fund system existed in the erstwhile State of Travancore-Cochin before the formation of the Kerala State. Our analysis on the trend and pattern of growth of Chit Funds shows fluctuating trends in the number and volume of Chits registered in Kerala during the period 1960-2000. The decade (1960-70) witnessed the highest growth rate (21.17 %) in annual turnover. The falling growth rates in the succeeding decades have been mainly due to the rigidity of the Kerala *Chitties* Act, 1975. It has resulted in an exodus of foremen to other states for starting Chits. This decline is also due to the introduction of 'Chit-like' schemes known as Monthly Deposit Scheme (MDS) and Mutual Benefit Scheme (MBS) by the Co-operatives. At the same time, Trend Analysis of the annual turnover of Chit for the decade 1990-2000 shows a distinctly



increasing trend in comparison to the early decades. This has been largely due to the strong presence of KSFE in the realm Chit Finance during the nineties.

Institution-wise, though Co-operatives have the largest number of registered Chits (44.2%), KSFE has a clear edge and dominance in the Chit Funds sector with 77 per cent share in the total Chit business. Region-wise, Southern Kerala followed by Central Kerala dominates in the number of Chits registered as well as in the volume of Chit capital. KSFE is the most dominant Chit institution in all the three Regions in Kerala. District-wise analysis of the number of Chits registered and volume of Chit capital shows that Trivandrum ranks first followed by Quilon, Kottayam and Ernakulam.

Though Chit subscription as percentage of domestic deposits of banks in the State remained more or less stable between 5 to 7 per cent, the average annual growth rate of Chit turnover (16.64 %) in comparison with the average annual growth rate of domestic deposits of banks (16.10 %) seems impressive for the period from 1991 to 2000. The total number of working Chits in the officially registered sector at the end of the year 2000-01 was 20,445 with an approximate annual turnover of Rs.1,74,276 Lakhs. If we include the volume of Chit business with bases outside Kerala, MDS/MBS of Co-operatives and the informal sector, the actual volume of Chit business in Kerala would be far higher.

## **7.2 MOTIVATIONAL FACTORS FOR JOINING CHITS**

Our survey among Chit subscribers revealed that the important reasons for preferring Chits, in its order, are providing future savings in advance, easy and convenient way to save, facility of dual option for saving and borrowing and the monthly dividend obtained through the sharing of discount. Majority of the subscribers (60.2 per cent) joined Chits for both savings and borrowings. Saving through Chits has been preferred, to buy or build a house followed by investment in industry and trade, to meet marriage expenses and saving for old age. Borrowing through Chits has been preferred

for business or industry purpose, to pay-off old debts, to meet marriage expenses and to buy or build a house.

Chit subscribers' main avenues of savings follow the order of Chit, Life Insurance, Provident Fund, Post Office schemes and gold. The fact that the sample subscribers divert major portion of their household savings through the Chit schemes of different institutions shows the wide popularity and high level of satisfaction. It was also found that many subscribers have simultaneous Chit operations in different types of Chit institutions. This clearly indicates the trend among subscribers to join the Chit scheme regardless of the type of Chit institutions. It also reveals the fact that each type of Chit Fund has its own unique methods of attracting subscribers to their schemes. 46 per cent of the subscribers had more than 10 years of association with Chit Funds. The finding that Chit subscribers continue their association with Chit Funds even after the termination of a particular Chit reflects their loyalty to the avenue of Chit Funds.

Majority of the subscribers are aware of the working of Chit Funds in general and KSFE in particular, though only a minority is aware of the legal aspects of the Chit business and the *Chitties* Act. 'Chit-like' schemes, though named as Monthly Deposit Scheme (MDS) or Mutual Benefit Scheme (MBS) of Co-operatives seem to be equally popular as the KSFE Chits among the people.

### **7.3 COST AND RETURN ON CHITS**

Our examination of the cost and returns on Chits has revealed that the economics of Chits lie in viewing them as savings-cum-borrowing instruments. The financial return and cost of Chits depend on the prevailing rate of interest, instalment at which prize money is obtained, the method of discount followed, the 'sala' size and the duration of the Chit. Subject to these, it was found that, as a pure savings avenue, the rate of return on Chits is not attractive for most of the subscribers when we consider the opportunity cost of the subscription money. And if we look at Chits as a pure borrowing

avenue, it is cheaper as compared to bank loans. However, if we look at the Chit subscribers as savers-cum-borrowers, as indeed they should be, it makes sense to join Chits. The actual return or gain/loss they make from Chits will depend, as mentioned earlier, on the prevailing interest rates, how early they get the prize money, the method of discount followed etc.

There is also another dimension to this question, i.e., for many subscribers *Chitty* is a forced saving. For such persons these funds would not have been saved otherwise and hence there is practically no opportunity cost involved. In such cases, the gain on the Chits will be all the more higher and can be estimated as the sum of the compound interest that could be earned on prize amount and the difference between the loss on bidding and the total of discount accrued to the subscriber.

#### **7.4 REASONS FOR PREFERRING DIFFERENT CHIT FUNDS.**

We have tried to analyse this question by studying the critical success factors of each of the different types of Chit Institutions.

The important success factors of KSFE Chits, in order of priority, have been the safety and security aspect, big *sala* Chits, transparency and openness in auction. The critical success factors of Co-operative Chits are their better service including prompt payment and easy way of remittance. The reasons for preferring Private Chits registered in Kerala are their prompt and convenient payment of prize money and better service. The distinct merits of Private Chit Funds based outside Kerala are better services, personal relations with the subscribers and the flexible discount system. The main advantages of Informal Chit Funds are the personal contact with the subscribers, system of flexible discount and easy remittance facilities.

Our Chit Funds Rating Analysis based on the preferences of the subscribers on different aspects shows a trend distinctly in favour of KSFE followed by Co-operatives indicating the preference of the subscribers for safety and security. It also points to the existence of tough competition in the

Chit Fund arena where each type of Chit Fund has a niche market and specialities requiring suitable responses from the major players. The critical success factors for various Chit institutions point to the immense scope for the future growth of KSFE, provided it improves the customer services, and quality of services.

#### **7.5 PREFERENCE IN OBTAINING THE PRIZE MONEY AND ITS UTILISATION.**

The majority of the subscribers (66.5 per cent) prefer to get the prize money in the first few instalments. The logic behind this is that those subscribers who obtain the prize amount at earlier instalments are likely to gain more due to the twin advantages of depositing or investing it in more attractive avenues and also an opportunity to meet emergencies.

Majority of the subscribers used the prize amount for productive purposes. But further analysis showed that, the utilisation of prize money for non-productive purposes was more in the case of low-income group and *salaried* classes. The finding that majority of the subscribers utilise the prize amount for productive purposes leads to the conclusion that the growth of the Chit Fund Industry can help the pace of capital accumulation and hence economic development.

#### **7.6 PROBLEMS OF CHIT SUBSCRIBERS**

Problems of chit subscribers were found to differ from institution to institution. The major problems faced by the subscribers of KSFE in its order of priority were stringent security conditions, procedural delay and long queue for the remittance of cash. Though majority found the New *Chitty* Loan scheme useful, the high rate of interest makes it burdensome. The major problems in the Co-operative Chits in its order of priority were small capital limit, security problem and that the schemes were open to the members only. The safety aspect was the most important problem of Private Chits followed by instances of exploitation and small Chit *sala*. The same is applicable to Private Chits with outside registration and with Informal Chit Funds. Of

the subscribers subjected to some form of cheating, the majority were customers of the informal sector.

## **7.7 GENERAL PROBLEMS IN THE FIELD OF CHIT FINANCE**

The lapses in the Kerala *Chitties* Act such as fixed ceiling on discount, security to be kept by the foremen, cumbersome registration formalities and procedural delay are the important problems in Chit Finance Industry. The share of the private foremen and Co-operatives in the total volume of Chit business seems less due to the rigidity in the Act. Our comparative study of the Kerala *Chitties* Act and The Central Chit Funds Act indicates the superiority of the Central Act. The flight of foremen and the 'Chit like' schemes have resulted in loss of revenue to the State. Many of these problems could have been avoided if, the Central Chit Funds Act, 1982 with its amendments had been implemented in the State.

Difficulty in finding substitutes and the absence of revenue recovery provision are problems especially in the private Chit sector. The entry of certain Chit Funds into other risky fields of business has resulted in the failure of certain Chits. The other prominent problems are loss of reputation to Chit business due to the malpractices of certain foremen, growth of private Chits without State control and registration, the high levels of default and arrears, delayed receipts and non-receipt of subscription, absence of protection by insurance coverage, etc.

An analysis of the above problems of Chit Finance leads to the striking conclusion that The Kerala *Chitties* Act, 1975 has failed to protect the interests of both the subscriber and foreman. It calls for remedial action by either the strict enforcement of the amended Kerala *Chitties* Act, 2002 or the implementation of the Central Chit Funds Act.

The 'Five Forces Analysis' on Chit Fund business shows that the level of threat in this industry is not very high and still that the level of performance is rather high.

## 7.8 PERFORMANCE OF KSFE

The market share of KSFE Chits has shown remarkable growth from 1992-93 (31.5%) to 79.4 per cent as in 2000-01. The total business of KSFE has shown an increase by 13.8 times from Rs. 20,480 Lakhs in 1990-91 to Rs.2,83,105 Lakhs in 2000-01. There has been an increase of 23.7 times in total benefits (including both direct benefits as service charges, guarantee commission, registration and filing fee and indirect benefits as *Chitty* security deposit, savings bank account, and other deposits with treasury) to the Government of Kerala showing an increase from Rs.1,319 Lakhs in 1990-91 to Rs.31,249 Lakhs in 2000-01. Total Revenue of KSFE has increased 16.6 times during the period 1990-91(1,022 Lakhs) to 2000-01 (20,491 Lakhs).

Chit and allied products contribute 60 per cent of the total revenue of the Company. The growth rate in the volume of Chit turnover shows fluctuation from 1970-80 to 1990-2000. The decade 1970-80 witnessed the highest growth rate. After a small decline in 1980-90, the decade 1990-2000 shows an increasing tendency for the growth rate of Chit turnover. This has been the result of the diversification of schemes of KSFE, particularly Chit schemes in the 1990's. Total funds mobilised (Chit turnover and total deposit) show an increase of 12.5 times, from Rs.18,159 Lakhs in 1990-91 to Rs.2,26,675 in 2000-01.

Parameters used for measuring the Company's performance and outreach, like the value of the core business (*Chitty*), the number of subscribers served, the volume of total advance, deposits mobilised, number of branches and diversification of schemes, register impressive figures for the period 1990-91 to 2000-2001. But the limited number of branches in the rural area stands in the way of fulfilling the social objective during the same period. The total staff strength (direct employment) has increased by 2.5 times from 1,253 in 1990 to 3,179 in 2000. The level of branch productivity and average business per employee have been improving continuously from 1990-91 onwards. Though the Index of staff expenses showed an increasing trend for the period mentioned above, the Index of staff productivity has not been impressive.

At the same time the default rate for all schemes, particularly for New *Chitty* loan scheme has been very high mainly due to the absence of timely follow up measures. The Revenue Recovery debtors in KSFE have been steadily increasing (11.3 times) from 1992–93 onwards. The BCG Growth-Share Matrix and Default-Revenue Matrix show that Chit and Chit loan schemes are the strategic business units of the Company. All other loan schemes like Trade Loan, Gold Loan, House Finance and Hire Purchase of the Company require redesign and fine-tuning.

An assessment of KSFE as a Government owned Chit Company generates the conclusion that its performance is satisfactory and can attain still higher heights of success. Some of the objectives of KSFE at the time of its incorporation like the social commitment to liberate the rural masses from the clutches of the unscrupulous Chit foreman, controlling the growth of the informal financiers and introduction of insurance business are yet to be realised. The scarcity of rural branches, the dearth of innovative schemes, diversification of existing schemes, lack of public awareness on the special privileges enjoyed by KSFE, insufficient customer care and comparatively poor quality in the delivery of services pose threats to the reputation of the Company. The SWOT Analysis for KSFE has highlighted the need for better performance of the Company.

KSFE operates with a mere Rs. 3 Crore equity capital and with a net worth of Rs.7.5 Crore, which is inadequate. Hierarchical structure of administration causes delay in decision-making and affects the speedy operation.

Insufficient customer service and delay in the payment of prize money tarnishes the image and reputation of the Company, despite its safety aspect. Absence of computerisation creates operational difficulties. The Chit subscribers have clearly revealed the indifferent attitude of certain staff as an important reason for not preferring KSFE Chits. Lack of training facilities for the staff and lack of awareness on changes in the norms and terms of the various schemes cause loss of time and inconvenience to the customers. The

introduction of new schemes has been delayed due to the interference of strong labour unions.

Our analysis of this section leads to the conclusion that many of the problems of KSFE stem from the common characteristics of a public sector undertaking. SWOT analysis of KSFE shows that KSFE as the only public sector Chit Fund Company in India can attain fast future growth by discarding its complicated formalities and procedural delay which causes discomfort to the customers. The competitor analysis for the Chit Fund industry points out the various actions to be taken by KSFE for modernisation.

### **7.9 SUGGESTIONS FOR THE BETTER PERFORMANCE OF CHIT FINANCE.**

1. Our analysis had revealed that a number of problems faced by the Chit Funds business are due to lacunae in the legal framework existing in the state. Many of this we have seen could be avoided by the enforcement of the Central Chit Funds Act, 1982. Alternatively, the following amendments may be brought about in the Kerala *Chitties* Act to provide for the following provisions.
  - A) Section 3(1) of the Kerala *Chitties* Act on sanction and registration of Chits should be amended in line with Section 4(1) of the Central Chit Funds Act on prohibition of Chits not sanctioned or registered under the Act.
  - B) Section 3(5) on aggregate Chit amount should be amended as Section 13(1) of the Central Act with its amendment of 2001 on the enhancement of the aggregate Chit amount.
  - C) Section 7(4) on the amount of discount in a *Chitty* should be amended in line with Section 6(3) of the amended Central Act on the enhancement of ceiling on discount to be foregone by a subscriber.
  - D) Section 15(1) on the security to be given by the foreman should be amended as Section 20 of the amended Central Act on less restrictive provision on security to be kept by the foreman.



2. Credit Rating of Chit Companies by independent, professional agencies can boost subscriber confidence and encourage savings through Chits. Credit Rating provides the potential subscriber to differentiate between the various Chit Funds in operation, thereby preventing the mushroom growth of Chit Fund Companies. Credit Rating must be made compulsory for those Chit companies, which accept deposits from the public.
3. Chit companies rated with the highest safety could be permitted to conduct 'Corporate Chits' with a ceiling on Chit *Sala*. The Minimum paid up capital for such Chit companies should be enhanced.
4. There are Chit companies that follow Chit Fund Regulations to the last word. But there are Chits operating in the State with bases outside (eg. Jammu, Faridabad) and a number of other unregistered Chits who do not have to follow any of these regulations leading to various types of malpractices, besides affecting the State revenue. It is also anti-competitive as it fails to provide a level playing field for all Chit Funds. Hence, the Chit regulations must be strictly enforced on all players if they are to be allowed to operate in the State. In this context, the new amendment introduced in the Kerala *Chitties* Act on 1<sup>st</sup> April 2002 will be highly useful provided it is strictly enforced on all.
5. The setting up of a State Chit Fund Regulatory Authority will serve as an enforcer of standards, as a problem solver and a reviewer and evaluator for helping Chit Fund companies.
6. Effective system of disposal of disputes through the establishment of a grievance cell or even resorting to Securitisation Act can help in controlling the recovery position of Chit Funds and the resultant loss to the subscribers.
7. The Government should control the growth of unscrupulous fly-by- night Chit companies by introducing suitable legal measures. Implementation of the Central Chit Funds Act or suitable amendment in the Kerala *Chitties* Act can prevent the growth of such companies.

8. Co-operatives' Chit scheme may be opened to all rather than only to the members, along with the introduction of the *Chitty* loan scheme of the type offered by KSFE at reduced interest rate.
9. Insurance schemes could be introduced to protect the interests of subscribers and foremen. Insurance provides scope for both 'Credit Guarantee' to the foreman in the case of prized Chits and deposit (subscription) insurance to the non-prized subscribers. As private insurance companies have become a reality, Insurance Coverage Schemes for Chit Fund business could be easily introduced.
10. Provision should be made for the enrolment of NRIs as Chit subscribers.
11. An All Kerala Federation of Chit Funds free of political bias for the common cause of the Chit business is desirable.
12. In view of the need for a level playing field, discrimination between a Government Chit Fund Company and other Chit Funds existing in the State should be reduced and ultimately avoided.

#### **7.10 SUGGESTIONS ON KSFE**

1. In the emerging competitive scenario, KSFE should be innovative and introduce attractive newer schemes and packages, modify and redesign existing schemes and diversify wherever suitable opportunities exist.
2. Promotion and diversification of Chit scheme, which is the strategic business and main contributor to the revenue of the Company is to be introduced. BCG Growth Share Matrix and the Default Revenue Matrix had shown that *Chitty* and its allied *New Chitty* loan scheme are the strategic business units and the main contributors to the revenue of the Company. So, the appropriate strategies recommended for *Chitty* is to 'harvest' and for *New Chitty* Loan is to 'hold'. But the high rate of default in *New Chitty* Loan requires urgent corrective action. The high default-low revenue share strategic business units like hire purchase, house loan, trade finance loan, New Fixed Deposit Loan and Gold Loan need a closer scrutiny and redesigning to make them viable. Hence the appropriate strategy recommended for is to 'build' by making them attractive to the public.

3. The critical success factors analysed for *Chitty* and *New Chitty* Loan in terms of their market share in the industry, share in the volume of business of the Company, profitability and safety aspect calls for appropriate strategies to diversify them. The Competitor Analysis and the SWOT Analysis for KSFE point to the urgent actions to be taken by the Company for modernisation, branch net-working, introduction of innovative schemes, effective and practical security norms, better quality of Customer service and to minimise the default rate.
4. Simplification of security norms and formalities should be implemented without affecting the safety of the Company. This will minimise the inconveniences caused to the customers. Opening-up of enquiry counters at the branch and the supply of detailed printed leaflets or brochures in the Malayalam language regarding the security procedures are essential.
5. Salary certificates offered by the employees of reputed private firms and the guarantee provided by the businessmen with PAN card can be accepted at par with State employees salary certificates. If the security provided by the customer or Chit subscriber is sufficient for future liability, other sureties need not be insisted on.
6. More rural branches are needed for fulfilling the social commitment of the Company. Evening and morning branches or counters, more cash counters in the branches on busy days to avoid long queue, cash collection up to 4'0clock, and separate counters for payments and remittances will provide better service to the customers. Provision of sufficient facilities in the branches for seating, drinking water, revenue stamp, payment of prize money within 30 days etc. will enhance the customer/subscriber satisfaction.
7. Introduction of salary deduction provision to suit the salaried class and the diversification of Chit schemes like Vehicle Chits, Marriage Chits, Education Chits, House Loan Chits, Land Chits, Consumer Durable Chits, Chit Schemes suited for students etc, could be introduced.
8. Door collection and daily collection of Chits from traders and businessmen through agents should be introduced. At the same time

advances to the above group and daily repayment provision through agents could be easily implemented. Long duration and high value Chits must be started. KSFE has every potential and so must think of conducting Corporate Chits. Cash Payment of prize money up to Rs. 1 Lakh must be allowed.

9. *Chitty* loan scheme should be made more subscriber-friendly by reducing the rate of interest. In the light of the social commitment of the Company, Chit loan scheme at concession rates of interest should be considered for low-income subscribers and women and for self-employment programmes.
10. Diversification into new attractive products like insurance schemes or distribution of insurance schemes, acting as agent to the Government, tie-up with premier institutions on House Loan schemes and entry into other non-fund based services should be seriously considered by the Company.
11. Computerisation helps better customer service and can result in business promotion/efficient working of the Company. Proper care and attention could be offered to the customers due to the less burdensome work of the staff because of computerisation. An enquiry section operating with an updated computer can give guidance and quickly clarify the genuine doubts of the customers. Door collection and daily collection of Chits on agency basis could be made possible and easy, by computerisation. Salary deduction of Chit subscription through the *Sugama* scheme and collection of cash upto 4'O clock would become realities with the computerisation of branches. Computerisation will enable KSFE for its easy default processing, facilitate prompt and strict follow up measures and also help inter-branch remittance facility. Computerised Head Office with information on branches, schemes, employees, etc. and inter-linking with branches will facilitate the efficient working of the Company.
12. Human Resource Development programmes for the staff will enhance efficiency and enable speedy and better service. It will also help in maintaining good customer relations. Information on the changing norms

and rules of various schemes and computer literacy programmes can be provided as part of scientific training. Participation in the Training Programme should be made compulsory and must be an essential requirement for promotion. A proper system of recruitment and training will enhance the quality of the personnel. For this purpose, the head-office must very seriously think of starting a Staff Training College. It can offer training programmes to the staff of other Chit institutions as well. This can go a long way in bringing about the badly needed professionalism in the industry.

13. Along with its rural branch expansion programme, KSFE must extend its services and operations to other states in India and plan for starting even overseas branches.
14. KSFE needs to be protected against high politicisation so that the Company can implement the decisions without delay. Incorporation of professional and financial experts into the Board of Directors of KSFE, is also desirable.
15. A Default section should be opened in every branch for timely and strict follow-up. Measures like incentives, concessions, discounts or even persuasion should be adopted to reduce default rate and the quantum of Non Performing Asset.
16. The Company should increase its paid up capital. The government itself can contribute more capital to the Company. A portion of the profit or its reserve should be converted into equity capital. The Company can think of offering certain percentage of the total capital to the public through private placement or even public issue. The shares of the Company should be offered to the employees also.
17. The staff representation in the decision-making bodies should be considered. A member of the staff elected by the employees should be given representation even on the Board of Directors. Quality Circles system could be introduced in the Company.

18. KSFE should arrange public awareness campaigns and customer awareness programmes. Information Bureaus can be opened in important regions and places. Customer meets could be arranged occasionally. Complaint Book or Suggestion Box should be provided at every branch.
19. A Research and Development wing may be opened at the head-office for the evaluation, planning and promotion of business. Every scheme should be evaluated periodically and corrections, if any, introduced immediately.

### **Conclusion**

Chit Funds contribute to the value of financial markets in India particularly in Kerala. Chit Finance with its unique features is of great significance especially as a saving cum borrowing avenue. Though Chit as pure saving and borrowing avenues seem less restrictive, people from all walks of life prefer the scheme due to its facility of getting future savings in advance, convenient and contractual way to save and the facility of dual option for saving and borrowing. Chit as an indigenous financial instrument is complementary to modern financial techniques of savings and borrowings. The element of mutual help and co-operation inherent in Chits makes it distinct from other similar savings schemes. It is no wonder, therefore that Chit Funds have survived the test of time and have become an important part of the culture and traditions of the people of Kerala and South India.

Different types of Chits operating in the state have their own success factors and failure factors. The instances of exploitation, cheating and malpractices in the Chit Fund industry particularly in the informal Chit sector warrant prudential regulation and strict enforcement of the Chit Act in the State. This highlights the need for the growth and better performance of registered Chit Funds as a check to the informal sector.

Though KSFE is the dominant foreman in the Chit business in Kerala, its weaknesses result in the non-attainment of certain objectives. Driven by the growing trend of privatisation, KSFE needs to be innovative and competitive. It is also necessary that KSFE continue its leadership role by

being more effective in being the harbinger of more efficiency, professionalism and good governance in the Chit Fund Industry. Though the performance of the Chit Fund industry is satisfactory, several difficulties and problems prevent its healthy growth. Limitations in the regulatory measures have resulted in the outflow of Chit foremen from the state and also failed to control the growth of informal Chit Funds. The implementation of the Central Act or suitable amendment of the Kerala *Chitties* Act and its strict enforcement is needed for the healthy growth of the Chit business in the State. The growth and development of Chit business by protecting the interests of both the subscribers and the foremen will therefore be most beneficial for any growing economy.

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