Amendment to the Chit Funds Act

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Click here to read about Rose Valley Scam. And Click here for Saradha Scam.

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Why in news?

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The Finance Ministry is amending the Chit Funds Act to insulate small savers from ponzi schemes floated by firms such as Saradha and Rose Valley.

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What is the need for the amendment?

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- At present, there are around 30,000 registered chit fund businesses in India.
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- Non-registered chit fund are estimated to be 100 times the size of those registered.
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- Under the law, chit funds cannot accept deposits and cannot offer other financial products or services.
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- But companies have come under the scanner for luring small savers from rural areas under the garb of chit subscriptions.
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- Following the Rose Valley and Saradha scam related arrests the Finance Ministry moved a Cabinet note to introduce the Chit Funds (Amendment) Bill.
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What are the amendments?

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- **Definitions** of the Act are being tightened to replace chits with “fraternity fund”.
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- The new “fraternity fund” nomenclature will distinguish its working from prize chits or marketing schemes that are barred under the Prize Chits and Money Circulation Schemes (Banning) Act.
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- This will signify its inherent nature of being a borrowing and saving scheme, and not one that just takes deposits.
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- **Technology** - Currently the act requires at least two subscribers to be physically present at the auction.
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- The bill proposes to allow the two minimum required subscribers at any chit auction to join through “**duly recorded video presence**”.
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- It is also changing the 1982 law to allow **e-auction** of chit funds.
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- **State Government** - Chit funds fall in the Concurrent List and states are free to issue their own law.
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- Currently enforcement remains the primary responsibility of the state government. The draft Bill gives them more freedom to regulate such funds.
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- At present, all chits with aggregate amount Rs 100 and below are exempted from provisions and penalties of the Act.
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- The bill allows state governments to prescribe this ceiling and to increase it from time to time.
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- A new clause is being introduced to protect companies or individuals that act as foreman of the chit fund whereby the promoter would be allowed a right to goods, securities or any other assets of the borrower until the debt is repaid.
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- The Bill, however, **does not address** a key concern raised by the Key Advisory Group in September 2013 i.e to provide **insurance coverage** in case of default by the foreman so that the interest of the investors is

protected.
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