



Chit Funds (Amendment) Bill, 2019

Why in news

The Parliament has passed the [Chit Funds \(Amendment\) Bill, 2019](#). It will streamline operations of **collective investment schemes or chit funds**, with the aim to protect investors that primarily comprises economically weaker sections of the society.

Chit Funds

- In this, the people agree to pay a certain amount from time to time into a fund. Periodically, one of the subscribers is chosen by drawing a chit to receive the prize amount from the fund.
- Chit funds are **legal and registered** and are different from ponzi schemes as well as unregulated deposits.
- It is used by the poor as it acts as both a source of finance and an avenue for savings.

Ponzi Scheme

- It is an investment fraud that pays existing investors with funds collected from new investors. Ponzi scheme organizers often promise high returns with little or no risk.
- It leads victims to believe that profits are coming from product sales or other means, and they remain unaware that other investors are the source of funds.

Need of Amendment

- **To Protect Investor Interest:** It highlights the crucial role chit funds play in India's rural economy, providing people with access to funds and investment opportunities, especially in regions where banks and financial institutions do not have a presence.
- **To Check Fraud:** The Chit Funds Act of 1982 was amended to incorporate stringent measures to stop alleged fraud.

Key Features of the Bill

- **Names for a Chit Fund:** The Act specifies various names which may be used to refer to a chit fund.
 - These include chit, chit fund, and kuri.
 - It additionally inserts **'fraternity fund'** and **'rotating savings and credit institution'** to this list.
- **Presence of Subscribers through Video-Conferencing:** The Act specifies that a chit will be drawn in the presence of at least two subscribers.
 - The Bill seeks to allow these subscribers to join via video-conferencing.
- **Foreman's Commission:** The 'foreman' is responsible for managing the chit fund. He is entitled to a maximum commission of 5% of the chit amount.

- The Bill seeks to increase the commission to 7%.
- Further, the Bill allows the foreman a right to a lien against the credit balance from subscribers.
 - **Lien** is the right of an individual to retain goods and securities in his possession that belongs to another until certain legal debts due to the person retaining the goods are satisfied.
- **Aggregate Amount of Chits:** Under the Act, chits may be conducted by firms, associations or individuals.
 - The Act specifies the maximum amount of chit funds which may be collected. These limits are:
 - **Currently, one lakh rupees** for chits conducted by individuals, and for every individual in a firm or association with less than four partners, and **Six lakh rupees** for firms with four or more partners. The Bill increases these limits to three lakh rupees and 18 lakh rupees, respectively.
- **Application of the Act:** Currently, the Act does not apply to: (i) any chit started before it was enacted, and (ii) any chit (or multiple chits being managed by the same foreman) where the amount is less than Rs 100.
 - The Bill removes the limit of Rs 100, and allows the state governments to specify the base amount over which the provisions of the Act will apply.

Source: [Live mint](#)

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