

Amendment to the Chit Funds Act

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Click <u>here</u> to read about Rose Valley Scam. And Click <u>here</u> 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. \n
- 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.
- But companies have come under the scanner for luring small savers from rural areas under the garb of chit subscriptions. \n
- 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.
- This will signify its inherent nature of being a borrowing and saving scheme, and not one that just takes deposits. \n
- **Technology** Currently the act requires at least two subscribers to be physically present at the auction. \n
- The bill proposes to allow the two minimum required subscribers at any chit auction to join through "duly recorded video presence".
- It is also changing the 1982 law to allow $\ensuremath{\textbf{e-auction}}$ of chit funds. $\ensuremath{\sc n}$
- State Government Chit funds fall in the Concurrent List and states are free to issue their own law.
- Currently enforcement remains the primary responsibility of the state government. The draft Bill gives them more freedom to regulate such funds. \n
- At present, all chits with aggregate amount Rs 100 and below are exempted from provisions and penalties of the Act. \n
- The bill allows state governments to prescribe this ceiling and to increase it from time to time. γ_n
- 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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