The Chit Funds (Amendment) Bill, 2019

Why in News?

The Chit Funds (Amendment) Bill, 2019 which seeks to amend the Chit Funds Act, 1982 was introduced in Lok Sabha this month.

What is the 1982 Act about?

- The 1982 Act **regulates chit funds**, and prohibits a fund from being created without the prior sanction of the state government.
- Under a chit fund, 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.

What are the 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.
- The Bill additionally inserts **'fraternity fund'** and **'rotating savings and credit institution'** to this list.

What the terms that are substituted?

- The Act defines certain terms in relation to chit funds. It defines:
    1. 'Chit amount' as the sum of subscriptions payable by all the subscribers of a chit;
    2. 'Dividend' as the share of the subscriber in the amount kept apart for running the chit; and
    3. 'Prize amount' as the difference between chit amount and the amount kept apart for running the chit.
- The Bill **changes the names of these terms** to 'Gross chit amount', 'Share of discount' and 'Net chit amount', respectively.

How can the subscribers join the chit now?

- 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.

How much is the Foreman's commission increased?

- The Act specifies that 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 lien against the credit balance from subscribers.

What is the 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:
    1. Rs. 1 lakh for chits conducted by individuals, and for every individual in a firm or association with less than four partners, and
    2. Rs. 6 lakh rupees for firms with four or more partners.
- The Bill increases these limits to Rs. 3 lakh and Rs. 18 lakh respectively.

What is the applicability of the act?

- Currently, the Act does not apply to:
    1. Any chit started before it was enacted, and
    2. 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: PRS India

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