

AWARENESS AND IMPACT OF CHIT FUNDS

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Abstract

Chit funds are a traditional and popular form of savings and borrowing mechanism in India, especially among the unbanked and underbanked sections of society. Despite their long-standing presence, public awareness of their operational structure, risks, and benefits varies significantly. This study explores the level of awareness among chit fund participants and assesses the socio-economic impact of chit fund schemes. Using survey-based quantitative research, data was collected from 150 participants across urban and semi-urban regions. The study found that while chit funds offer flexible financing options, a significant gap in regulatory awareness and risk perception persists. The paper recommends improved financial literacy and regulatory oversight to enhance the effectiveness and safety of chit fund operations.

Keywords

Chit Funds, Informal Finance, Financial Literacy, Community Savings, India, Financial Awareness, Risk Perception.

INTRODUCTION

Chit funds have long been a part of India's financial fabric, offering a unique model of savings and borrowing rooted in trust and community. In a typical chit fund, members contribute a fixed amount regularly, and one member—chosen through a bid or lottery—receives the pooled sum each cycle. This continues until all members have received the lump sum once. Especially in rural and semi-urban areas, chit funds serve as an accessible alternative to formal banking, helping individuals meet expenses like education, emergencies, or investments without the rigidity of traditional loans. However, the sector faces challenges such as fraud and mismanagement, prompting increased oversight under the Chit Funds Act, 1982 and regulatory bodies like the RBI. Most chit funds are family-run, with deep-rooted operational traditions and loyal subscriber bases. While this ensures trust and continuity, it also limits innovation and

scalability. Many of these firms are now evolving, embracing digital tools, expanding branches, and professionalizing management to compete with modern financial products. Despite regulatory scrutiny and competition from formal investment avenues, chit funds remain a valued savings mechanism for India's middle class, offering both financial support and a sense of community.

OBJECTIVES

To assess the level of awareness among individuals about chit funds.

To understand the reasons for participation or non-participation in chit fund schemes. To evaluate the financial and social impact of chit funds on individuals.

To identify the risks and challenges faced by chit fund participants.

To provide suggestions for improving transparency and trust in chit fund operations.

LITERATURE REVIEW

Jain, A.S., & Venkatesh, S. (2022)

In their study titled "A Study on the Financial Literacy Levels amongst Chit Fund Investors with Reference to Bengaluru City," Jain and Venkatesh investigate the financial literacy levels among chit fund investors and contrast them with non-investors. The study identifies a moderate level of financial awareness among chit fund participants, highlighting that their involvement is often driven by informal knowledge, peer influence, and convenience rather than a thorough understanding of financial products. The research also reveals that non-investors typically display slightly higher literacy levels due to broader exposure to formal financial education. The findings emphasize the need for structured financial literacy programs targeting chit fund participants to promote informed decision-making and safeguard against potential financial risks.

Santhisree, V.N. (2022)

In "A Study on the Role of Chit Funds as Multifaceted Financial Companies in the State of Andhra Pradesh," Santhisree offers an in-depth exploration of chit funds as versatile financial entities. The study underscores the crucial role chit funds play in promoting financial inclusion, particularly in semi-urban and rural areas with limited access to formal banking services. Santhisree highlights that chit funds function not only as savings instruments but also as credit facilitators and community-based support systems. The paper brings to light their adaptability, community integration, and the personalized nature of services, while also cautioning against risks arising from informal management practices. The study calls for enhanced regulation and modernization to ensure sustainability and trust in the sector.

RESEARCH METHODOLOGY

This study aims to evaluate the impact of chit funds on individuals and communities, using a combination of primary and secondary data. The primary focus is on understanding how chit funds influence people's financial behaviors, savings patterns, and borrowing decisions. Secondary data was collected from various sources such as journals, articles, books, previous studies, and credible online resources to provide a background on the functioning, advantages, and challenges of chit funds in India. To ensure that the data accurately reflects the experiences and perspectives of those involved with chit funds, a structured sample design was adopted. The research employed a convenience sampling technique, which allowed the collection of data from respondents who were easily accessible and willing to participate, particularly customers and participants of chit funds. A total of 150 individuals formed the sample size for this study, chosen based on their knowledge of and experience with chit funds. Primary data was collected through a structured questionnaire, carefully prepared to align with the objectives of the study. The questionnaire included relevant questions aimed at assessing awareness, participation, perceived benefits, and challenges related to chit fund schemes. The responses were later analyzed to derive meaningful insights that support the objectives of the research.

FINDINGS AND RESULT:

AGE:

S.NO	PARTICULARS	FREQUENCY	PERCENTAGE
1	Below 25	29	19%
2	26-35	12	8%
3	36-45	43	29%
4	46 - 55	57	38%
5	Above 55	9	6%
	TOTAL	150	100%

Source: Primary Data

INTERPRETATION:

Majority of respondents (38%) are in the age group of 46–55, followed by 36–45 years (29%). This suggests a higher interest or involvement in chit funds among middle-aged individuals. Very few respondents are below 25 (19%) or above 55 (6%).

OCCUPATION:

S.NO	PARTICULARS	FREQUENCY	PERCENTAGE
1	Student	5	3%
2	Salaried Employee	75	50%
3	Businessperson	15	10%
4	Homemaker	40	27%
5	Retired	10	7%
6	Others	5	3%
	TOTAL	150	100%

Source: Primary Data

INTERPRETATION:

Half of the respondents (50%) are salaried employees, suggesting that employed individuals view chit funds as a viable savings/investment option. Homemakers also show notable participation (27%), indicating household-level financial planning.

S.NO.	PARTICULARS	5	4	3	2	1	WEIGHTED AVERAGE	WEIGHTED AVERAGE RANK
1	Transparency of chit fund operations	35	58	44	12	1	37.600	2
2	Ease of joining a chit fund scheme	18	74	53	3	2	36.867	5
3	Payout process of chit funds	22	83	43	2	0	38.333	1
4	Security measures taken by chit fund companies to prevent fraud	42	47	42	17	2	37.333	3
5	Overall returns on your chit fund investment	18	57	67	4	4	35.400	6
6	Flexibility of contribution options in chit funds	33	56	52	5	3	37.200	4

INTERPRETATION:

- Respondents rated the payout process as the most important factor in their chit fund experience. This shows that receiving money on time and without hassle is their foremost concern, reflecting the practical need for liquidity.
- The second-highest score was for transparency in operations, indicating that people want clear and honest communication about fund management. This builds trust and confidence in the chit fund system.
- Security against fraud ranked third, showing that respondents are aware of potential risks and want assurance that safeguards are in place to protect their investments.
- Participants also value flexibility in contribution options, especially those with irregular income patterns. This shows that adaptable schemes can attract and retain a wider range of members.
- Although ease of joining is appreciated, it ranked lower, suggesting that initial access is not as important as what follows — like payout reliability and fund management.
- Surprisingly, overall returns received the lowest rank, indicating that most respondents do not join chit funds primarily for profit, but rather for convenience, trust, and accessibility.

ANOVA:

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	3.203333	1	3.203333	4.610522588	0.032582942	3.872853
Within Groups	207.0467	298	0.694787			
Total	210.25	299				

HYPOTHESIS:

H₀ = There is no relationship between challenges in assessing incubators and engagement level

H₁ = There is a significance difference in challenges in assessing incubators and engagement level

INTERPRETATION:

The F-value (4.61) > F-critical (3.87) and p-value (0.0325) < 0.05 indicates statistical significance. Hence, we reject the null hypothesis (H_0). There is a significant difference in the benefits received based on participation frequency. Frequent participants may be gaining more benefits.

REGRESSION ANALYSIS:

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	1.2004	0.2032	5.9083	2.334E-08	0.7989	1.6020	0.7989	1.6020
Monthly Income	-0.0545	0.0423	-1.2904	0.1989674	-0.1380	0.0290	-0.1380	0.0290
Perception	0.1329	0.0624	2.1301	0.0348383	0.0096	0.2562	0.0096	0.2562
Experience	0.0710	0.0745	0.9534	0.3419791	-0.0762	0.2183	-0.0762	0.2183

INTERPRETATION:

- $R^2 = 0.045$, meaning only 4.5% of the variance in “willingness to recommend chit funds is explained by monthly income, perception, and experience.
- Perception ($p = 0.034$) is statistically significant, meaning it influences recommendations.
- Monthly income and experience are not significant ($p > 0.05$).
- Respondent’s perception about chit funds significantly affects their likelihood of recommending it, while income and personal experience don’t have a strong direct influence.

FINDINGS

- Majority of respondents are aged between 46–55 years (38%), showing that middle-aged individuals are more actively involved in chit funds.
- Females (56%) dominate the respondent group, indicating growing financial participation among women.
- A large portion (45%) have professional/technical education, showing that chit funds are not just popular among the less educated but also among skilled professionals.
- Salaried employees (50%) form the highest occupational group, with homemakers (27%) also showing notable involvement.
- Most participants fall in the ₹25,001–₹1,00,000 monthly income bracket (49%), reflecting chit funds' appeal among middle-income groups.
- 91% of respondents are aware of chit funds, mostly through friends/relatives (31%) and advertisements (19%).
- The top motivation to join chit funds is high returns (35%), followed by peer/family influence (22%).
- 64% reported positive experiences, and 79% are willing to recommend chit funds to others. However, only 51% are aware of regulations, showing a gap in regulatory knowledge.
- Major benefits cited include emergency help (45%) and easy monthly savings (41%).
- Lack of transparency (27%) and delays in payments (21%) are the major issues faced. 44% of respondents faced no issues, showing overall satisfaction.
- ANOVA shows a significant difference in benefits based on participation frequency ($p = 0.032$), meaning repeat users may benefit more.
- Regression analysis reveals perception is a key factor in willingness to recommend chit funds ($p = 0.034$), while income and experience have less influence.

CONCLUSION

This study shows that chit funds remain a trusted and useful financial tool, especially for middle-aged, working individuals and homemakers. Most people join chit funds for easy savings, quick access to money during emergencies, and better returns than banks. Friends and family play a big role in spreading awareness, but many people still don't fully understand the rules and regulations behind chit funds.

While most users are happy with their experience, issues like lack of transparency and payment delays still exist. The success of chit funds depends more on how people feel about them than on their income or past experiences. Positive perception leads to continued participation and word-of-mouth recommendations. In short, chit funds work best when there is trust, transparency, and proper management. With better awareness and regulation, they can continue to serve as a valuable saving and borrowing option for many.

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