

TECHNOLOGICAL TRANSFORMATION IN CHIT FUND COMPANIES

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Abstract

Chit funds are one of the oldest methods of savings and borrowings in India. They served as important financial intermediaries for the people of the country for many decades. However, the Indian economy started opening up itself to new banking and financial institutions since 1990s. This resulted in many new banking and financial products and services, which catered to the needs of changing economy. Chit fund companies on the other hand were functioning more or less in the same manner. Technology has completely changed the way of doing the business in banking and non-banking financial companies. However, chit fund companies have not witnessed same pace of adoption of technology. This article discusses the technological initiations taken by some of the chit fund companies to take the age old financial tool to the new generation. The study also focuses on the chit fund companies that are leveraging on the technology to make a difference to the field of chit funds.

Key Words: Technology, Chit Funds, Chit Funds Online Platforms.

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1. INTRODUCTION

Chit fund is a financial instrument that combine both savings and borrowing in one scheme. The concept of chit funds basically depends on co-operation, trust and confidence. Chit funds cater to the needs of low-income households, which are not part of the formal financial system in the country. In a chit fund scheme, a group of (usually) known people come together for a fixed time period and contribute towards the scheme at regular intervals. Every month, till the end of the scheme, the collected fund is given as a loan to the member of the scheme through bidding. In this manner, individuals who need funds and those who prefer to save can meet their requirements. This has been happening in India since many decades.

Chit fund was an important financial tool before the entry of various banking products and services. However, the entry of many new banks and financial institutions has brought in number of new products and services that helped people in saving, borrowing and investments. Changing needs of people due to the changes in the growth of economy and tremendous growth in the service sector has opened doors for many new banks, non-banking financial companies, financial institutions and fin-tech companies. This resulted in introduction of various new products and services by the financial sector. Moreover, the advancements in the field of communication and technology have brought in disruptive changes in the manner the business is conducted in financial sector. However, the same speed of technological advancement has not taken place in the chit funds. But there are few initiations in chit fund companies, wherein technology is playing vital role in conducting the business. This article makes an attempt to study such initiatives taken by chit fund companies. The article also highlights some of the important online platforms for chit funds.

The article is structured as follows. Section two positions the review of existing literature. Third section discusses the usage of technology by chit fund companies. Online platforms related to chit funds are highlighted in fourth section. Section five summarizes the conclusion.

Objectives of the Study

1. To study the usage of technology in chit fund companies.
2. To highlight the technology focused chit fund platforms in Indian Market.

2. Review of Literature

There are many studies related to chit funds, their operations, importance, problems, prospects, regulatory issues and region specific aspects. Krishnan (1959) in his work mentioned the growth, importance, types, features and malpractices of chit funds. The favoring circumstances that fostered the growth of the chit funds were the lack of organised credit facilities to permit savings deposits, the accommodation of small capital and the availability of loans on easy terms. The chit funds show a great deal of adaptability to the conditions that prevail in the area in which they have to operate. Looking from the point of benefits of chit funds, Srinivas and Higuchi (1966) grouped chit funds under the category - 'Mutual Credit Suppliers', because the demand and supply of credit is mutual - that there is a give and take process involved. Participants typically support each other for credit needs in mutuality. The money supplied or saved by some participants is lent and borrowed by some other participants. Thus, the benefits of the operation are mutual to all participants and equally distributed. The central idea of mutual credit suppliers is that they encourage savings from the participants.

A detailed study related to chit funds from various angles was carried out by Nayar (1973) who had tried to place the role of chit funds in the proper financial perspective. The study emphasized the need to regulate the activities of chit funds, and at the same time, perceived their role as active mobilisers of savings of the community and as a useful complement to other financial institutions. The work was an attempt to study all the known types of chit funds, classifying, naming and defining them wherever necessary. The study also attempted to examine the economic aspects of chit funds on an empirical and analytical basis.

Highlighting the importance of chit funds, Jagadisan (1974) opines that chit funds like any other non-banking financial institution are treated as para-banking institution. As per his opinion, the strength to a chit fund company is foreman's reputation for promptness, straightforwardness and honesty. He also suggests that every chit company should obtain a license before commencing its business and the company should be issued the license only if it furnishes the bank guarantee.

Joseph (1992) evaluated various savings / investment schemes available in comparison to the chit schemes. It showed that chit schemes can be treated as the best investment alternative

available. The study showed that the rate of return calculated for a chit was much more than the rate of return applicable to the various investment alternatives. It also presented the various characteristics of chit schemes and concluded that unauthorized chit business was in the ruins due to hard and stringent provisions of the enactments and KSFE was far away from the reach of the common people.

Pointing towards the importance of chit funds, Rao (2007) explains that the chit funds are essential for small businesses and low-income households. Registered chit funds are not considered about low value chit schemes due to increased operational costs and stringent rules imposed by Government. The size of the unregistered chit funds is stated about 67 times of the registered industry in Delhi and 3.2 times in Chennai. On an average 50% of chit fund clients are poor households and most of them save for particular target events like marriage, education etc., and also they value the flexible provision of credit. Subscribers feel comfortable with the bidding process and 96% of them perceive registered chit industry as safe or very safe.

Mudit Kapoor, Antoinette Schor and Preethi Rao (2011) reveal that chit funds are important source of finance for small business and low income households in India. According to survey, 72% of the members participate in the chit fund savings. Whereas, Smets (2000) in his study 'Rosca as a source of housing finance for the urban poor: an analysis of self help practices from Hyderabad, India', reveals that chit funds are the only source of housing finance for 9.3% of the slum population and other items in their portfolio includes own-savings, moneylenders, borrowings from friends and relatives and gift received.

The literature review throws light on various aspects of chit fund companies across the globe. Various aspects related to the working mechanism, importance, comparison with other financial institutions and regional specific studies related to these institutions have been discussed in detail in many of the studies. However, there are very few studies in particular pertaining to use of technology in chit fund companies. The existing studies focused on understanding the growth patterns of chit fund companies in southern states, particularly in Kerala and Tamil Nadu. However, the study area is confined to the working mechanism of chit funds, regulatory issues, and frauds in chit funds, customer perception analysis and regional specific studies. In this context the present study adds a new dimension to the existing literature related to chit funds.

3. Technology in Chit Fund Companies

Chit funds cater to the financial needs of a common man. They are prominent in rural area and are more active among unorganised sector. The rural areas and the unorganised sector are not connected well with banking and financial facilities. In such scenario the chit funds are great place for people to save and borrow. Although, the RBI is making great effort for financial inclusion of people in rural areas, still the expected result has not been achieved. However, the Banks and financial institutions are working efficiently with the help of communication technology but chit funds are not on the same track when it comes to use of technology. The reasons for this are many like, illiteracy of people, specifically financial and technological unawareness, dearth of internet connectivity and feeling of insecurity are to name a few.

Many chit fund companies got vanished due to inefficient management and frauds. Whereas some chit fund companies are making use of technology in an efficient manner to connect better with their customers. Communication with chit subscribers, offering new chit schemes, collection of subscription amount, and online payments are some of the basic functions carried out through the use of technology. Below is the list of important functions carried out using technology for efficient management of chits, and reaching out to more people.

1. Online presence of chit fund companies for providing all the related information like products, services, branch details, contact information and their vision and mission.
2. Online registration facility for new users and login facilities for existing users to manage their subscription on timely basis.
3. Online payment of chit subscription using various payment options like debit cards, credit cards, net banking and scanning QR code for payment.
4. Enquiry related to chits, complaints, suggestions and feedback for the company are allowed online.
5. Change of address, dividend enquiry, knowing subscriber status and subscription pickup can be requested online from respective chit fund company websites.

4. Online Platforms of Chit Funds

Tracing back to the history of chit funds reveals that they evolved at a time when banking facilities had not developed, thus filling an important credit gap in the economy. But now, there

exists many numbers of banks and financial institutions and the competition among them is fierce. However, even today chit fund companies are recognized as important credit and investment agencies. Some of the well known chit fund companies across the country have seen tremendous growth in terms of number of subscribers, branches, and prize money. At the same time there are few new platforms that originated due to the emergence of internet technology. Startups in the field of chit funds are operating using the internet and digital payment ecosystem in the hope of attracting young and tech- savvy generation. Few such startups in chit funds are highlighted below.

A. GroupFund

GroupFund is a chit fund company headquartered in Hyderabad. It was established in 2010 and became operational in 2011, with a vision to promote transparency, customer service, and accessibility to customers through the help of latest technology. GroupFund's primary objective is to offer people an alternate and proven means of saving and borrowing, while extending the benefits of convenience and transparency.

The schemes of GroupFund are specially designed to cater to the present day needs of the knowledge workers, self-employed people, and entrepreneurs of new age. The company offer unique schemes that enable customers to plan their finances exceptionally well. The different types of funds that the company provides are of value of Rs. 1 lakh, 5 lakhs, 10 lakhs and 15 lakhs. Number of subscribers, number of months and average installment for each value differs accordingly.

The company operates on two different business models according to the customer needs. One is online auctions group model and the other is commitments group model. The target customers of this chit fund company are mainly the tech and internet savvy people who are well connected through the social media. The company is mainly targeting the customers who demand better customer service and easy access to quick funds to fulfill their consumption needs for luxury items, vacations, bikes, cars etc.

Main advantages of GroupFund over other chit fund companies are:

- Online sign-up and registration

- Transparent account statements
- Online Auctions- Customers can bid through online auctions or via SMS and IVRS
- Lowest risk due to presence of like-minded savers and borrowers
- Direct to Consumer Model: No agents are involved
- Complete transparency
- Option to make Online and Offline Payments

B. ChitMonks

ChitMonks is an online platform that connects all registered chit fund companies on to one platform and promotes their chit funds. It was founded in February 2016. ChitMonks introduces customers who are looking to join a chit fund to their platform and educate them about the working mechanism of chit funds. It then makes customers to choose the right chit funds that meet their saving and investment requirements. ChitMonk has 15 chit fund companies and 50 subscribers on board. The company has a presence in Andhra Pradesh, Karnataka, Tamil Nadu, Telangana, Mumbai and Delhi. ChitMonks allows users to search for various registered and trustworthy chit funds in their region. Users can also see pool sizes, auction amounts and monthly deposits following their search.



Source: <https://www.chitmonks.com/>

ChitMonks has done around Rs 500 crore of Auction turn over (ATO) per month since their inception. Subscribers are on-boarded digitally and they physically reach out to every chit fund company office. ChitMonks charges a royalty of 1% of the value of chit from the chit funds and this service is totally free for the subscribers.

C. KyePot

KyePot is a Software-as-a-Service (SaaS) platform that digitises the entire lifecycle of the chit fund, including its subscribers. Kye in Korean means social trust. It's the social trust on which the chit fund industry was built. It provides the infrastructure for facilitating digital payments by having on board banks. An important feature of this platform is that, it facilitates creating a risk score of the members using different parameters. The risk assessment is based on face-to face meetings. KyePot also has digital marketing and content capability that assist in getting new customers and subscribers. KyePot is currently working with six companies on board and is present in Karnataka, Maharashtra and Tamil Nadu. It charges a monthly fee per customer from the chit fund companies.

D. CredRight

CredRight is a lending platform that is basically data-driven. It provides loans to the unsecured and underserved micro, small, and medium enterprises (MSMEs). The company's uniqueness lies in the fact that, it is working with the chit funds to get information related to small and medium enterprises, their credit history and default data. CredRight is using the machine learning based credit algorithm to get insights on cash flows, willingness to repay and ability to repay of the customer. The company provides term loans, working capital loan and personal loan. Loan against chits is one of its unique features as it provides loan up to 70% of chit value. The company approves loans in 24 hours and disburses the funds within 72 hours. It has got strong online facility for application of loan and uploading the documents.

E. TraChit

TraChit is a chit fund account tracking app. It enables the customer to keep track of all investments in the chit funds along with the details of final amount to be earned. It also lets the

customer to know about the safest bid for an auction. However, this company deals with unregistered funds.

Conclusion

Chit funds as an age old financial instrument have served the unbanked and under-banked population of the country for years. But chit funds were not growing in terms of technology on par with the banks and financial institutions. However, the emergence of new banks and financial institutions has opened new doors for savings, borrowings and investment. Although chit funds are very much present in every part of the country, there is not much development in the functioning of chit funds from the technological point of view. But the advancement in the financial technology and disruptions in the payments systems have given impetus to new age online platforms of chit fund companies. These online chit fund platforms are making use of the technology to attract the new generation who are tech-savvy and comfortable using the new ways of payments. These new platforms are of the opinion that digitalisation of chit fund industry can save this age old financial tool and can be utilized efficiently to serve the increasing credit needs of the current population.

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