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Effectiveness of chit finance in Kerala with special emphasis on Kerala state financial enterprises Ltd.

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Abstract

The strategic role of the financial system is to channel funds from surplus units to deficit units. The financial system comprising the set of institutions, markets and instruments facilitates capital formation and accelerates the pace of economic development. The gap between gross capital formation and gross domestic savings in India necessitates the need for augmenting the growth rate of voluntary domestic savings. So, the working of different financial intermediaries for mobilizing savings from various income categories will have to be widened and strengthened. It is in this context that one has to appreciate the role of the Non-Banking Financial Intermediaries in supplementing the functions of the Banking Institutions. The Non-Banking Financial Intermediaries' ability to purvey funds depends to a large extent on the resources they can mobilize. Miscellaneous Non-Banking Companies or Chit Funds being a category of Non-Banking Financial Intermediaries, contribute significantly to the value of financial markets in India.

Keywords: KSFE, Chit fund, savings schemes

1. Introduction

The KSFE, a fully owned Government Company was established in the year 1969 as a discipline factor to private Chit Funds. The share of KSFE in the total volume of Chit business registered in Kerala is 77 per cent as on March 2000, though the number of Chits registered is only 37.5 per cent. KSFE has been included in the few profit-making public companies in the State with a profit of RS.40839cr at the end of June 2019. There are over 33 Lakh subscribers in various schemes of KSFE. The number of Chits runs by KSFE amounts to 7,446 with a total capital (*sala*) of over Rs.952 Crore. The number of branches is 600. Thus, KSFE Ltd. was incorporated as a Government Company on 6th November 1969 with its Head Office at Trichur with the objective of serving as a discipline factor to private Chit Funds". The first Board of Directors was constituted as per G.O. (Rt.) 4876/69/Fin dated 26th November 1969. KSFE comes under the group of Miscellaneous Non-Banking Financial Intermediaries. KSFE has the unique status of being the only public sector undertaking in India, which runs Chits and also one of the few profit making companies owned by the Government of Kerala.

2. Statement of the problem

Though KSFE is the dominant foreman in the Chit business in Kerala, its weaknesses result in the non-attainment of certain objectives. Driven by the growing trend of privatization, KSFE needs to be innovative and competitive. It is also necessary that KSFE continue its leadership role by being more effective in being the harbinger of more efficiency professionalism and good governance in the Chit Fund Industry. Though the performance of the Chit Fund industry is satisfactory, several difficulties and problems prevent its healthy growth. This paper studies about how effective the chit finance to KSFE.

3. Scope and relevance of the study

The present study entitled "A Study of Chit Finance in Kerala with special emphasis on Kerala State Financial Enterprises Ltd. " hence examines the socio- economic aspects of Chit schemes run by the private Chit Funds, KSFE, co-operatives, and informal Chit Funds. The study is an attempt to find the reasons for the growing popularity of Chit Funds as savings

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cum borrowing avenues even in the presence of various other avenues of savings and borrowings and also to understand how the Chit subscribers utilize the funds. This study also examines the limitations of The Chit Acts and suggests suitable recommendations. An analysis of the working of Chit Funds helps us to suggest the necessary measures required for improving the functioning of such institutions. The study takes stock of the working of Chit Funds in general and KSFE in particular, reviews the performance and estimates the cost and return on Chits. The study covers the period from 2014 to 2018. KSFE was selected as the focal point of the study for the following reasons:

1. The Kerala State Financial Enterprises Ltd. is a unique experiment as the only public sector Chit Fund Company in the whole of India, which is Fully owned by a state government.
2. KSFE is the dominant foreman in the Chit business in Kerala managing about 77 per cent of the total Chit capital (*sola*).
3. The presence of KSFE is believed to check the unscrupulous operation of private Chit business.
4. The KSFE is one of the few profit making public sector enterprises in the State and also generates direct employment opportunities to more than 3000 persons.

The study only shows a few studies on Chit Finance. The All India Rural Credit Survey District Monograph, Quilon (Reserve Bank of India, 1958) 8 is one of the first attempts at a scientific enquiry into the working of Chit Funds. But it

surveyed the Chit Funds of a very limited area only. The reports of the study groups appointed by RBI and Government of India from time to time have explained their working in some detail and made a few recommendations for the healthy growth of NBFCs including Chit Funds. Although there are studies on Chit Finance, there is no specific comprehensive study on the public sector Chit Fund Company (KSFE) especially, in comparison with its competitors.

4. Research methodology

The primary data collected through discussion with managerial personnel's and staff of the organization. The major source of data for this project was collected through Balance sheet of the company and Trading, profit and loss account for 5 year periods and company annual reports and official website and from the magazines which the government published annually. The study is based on data both from primary and secondary sources. To study the trend, volume and growth of Chit business in the formal sector, data have been collected from the Government of Kerala published reports and from the records from branches. To assess the performance of KSFE Ltd, data have been collected from the head-office and from its various branches selected randomly. Data were also collected from Reports, Journals, Books, Reserve Bank of India Publications.

5. Analysis and discussion

Decennial Growth in the Volume of KSFE Chits

No	Decade	Growth rate of volume of chit funds turnover in kerala	Growth rate of volume of chit turnover in KSFE
1	2013-2014	14.10	42.25
2	2015-2016	12.17	20.43
3	2017-2018	15.01	28.58

The growth rate in the volume of Chit turnover in KSFE shows fluctuation from 2013-2018. The decade 2013-2014 witnessed the highest growth rate. After a fall in it during 1980-90 periods, the decade 2009-2010 again shows an increasing tendency mainly due to the diversification of the schemes. The outflow of the Chit foremen to other States to escape from certain provisions of the Kerala Chitties Act, 1975 also resulted in the sluggish growth of the Chit business in Kerala especially in the year of 2013-14. Despite this, it is pertinent to note that in the volume of Chit

turnover in Kerala, the highest growth rate (15.01 %) has been recorded during the decade 2017-18. This perhaps is also a reflection of the success of KSFE in winning the confidence of subscribers and also vindicates its efforts at diversification. The high growth rate for the Chit industry as a whole during 2017-18 period is mainly due to the faster growth rate in the KSFE Chits. A comparison of the growth rate of the volume of Chit turnover in Kerala. It reveals higher growth rates for KSFE across all periods as compared to the industry.

Decennial contribution of KSFE Chits to the Total Revenue

No	Decade	Growth Rate of Total revenue	Growth rate in the contribution of chits to the total revenue
1	2013-2014	38.46	76.14
2	2015-2016	20.68	19.64
3	2017-2018	36.74	39.34

Analysis of the default position of KSFE schemes (Rs in lakhs)

No	Nomenclature	2013	%	2014	%	2015	%	2016	%	2017	%	2018	%
1	Chitty	3266	11.3	4254	16.1	5950	15.1	7421	18.0	9569	24.5	11538	18.7
2	Chitty default	370	11.3	683		900		1339		2348	16	2160	
3	Hire purchase	459	12	528	11	672	13	674	11	853	23	673	10
4	Trade loan	34	4	153	9	269	13	389	18	399	15	377	26
5	HMS	22	6	48	6	94	11	103	10	138	10	154	21
6	NFDL	-	-	75	4	265	9	380	6	551	8	634	19
7	NHFS	-	-	17	1	164	5	287	7	116		272	6
8	NPA of NCL	450	8	843	9	1491	6	5187	16	6814	20	5419	17

The default rate of HP scheme fluctuates over the period Of 2013 to 2018 under review and forms 18.7 per cent, but shows a decline to 10 per cent in 2013. The fall in the default rate of New Housing Finance Scheme to 6 per cent in 2013 when compared to the previous years is a matter of relief. The default rate for other schemes like TFL, HMS and NFDL has shown an increasing trend for the period from 2013-14. Though the default rate is increasing, the small magnitude of loans except Chit loan may not pose serious threat to the Company.

6. Conclusion

Chit Funds contribute to the value of financial markets in India particularly in Kerala. Chit Finance with its unique features is of great significance especially as a saving cum borrowing avenue. Though Chit as pure saving and Borrowing avenues seem less restrictive, people from walks of life prefer the scheme due to its facility of getting future savings in advance, convenient and contractual way to save and the facility of dual option for saving and borrowing. Chit as an indigenous financial instrument is complementary to modern financial techniques of savings and borrowings. The element of mutual help and co-operation inherent in Chits makes it distinct from other similar savings schemes. It is no wonder, therefore that Chit Funds have survived the test of time and have become an important part of the culture and traditions of the people of Kerala and South India. Different types of Chits operating in the state have their own success factors and failure factors. The instances of exploitation, cheating and malpractices in the Chit Fund industry particularly in the informal Chit sector warrant prudential regulation and strict enforcement of the Chit Act in the State. This highlights the need for the growth and better performance of registered Chit Funds as a check to the informal sector.

7. References

1. Annual report of KSFE LTD 2017-2018
2. The Kerala chitties Act 1972,1975,1982
3. www.ksfe.com