

June 19, 2015

To,
Hon'ble Dr. M. Veerappa Moily, Chairman
& Hon'ble Members,
Standing Committee on Finance of Parliament,
New Delhi

Hon'ble Sirs,

Deposition of Chit Fund Industry

Subject: Efficacy of Regulation of Collective Investment Schemes, Chit Funds, etc

We thank you for giving us an opportunity to depose before this August Committee, and give our views on the Efficacy of Regulation of Collective Investment Schemes, Chit Funds, etc.

In continuation to our submission vide Memorandum dated October 10, 2014; we place on record, for your kind consideration, some additional facts/recent developments, which is of utmost importance to the referred subject.

Levy of Service Tax

On the efficacy of this new levy, it is bound to be counter-productive, as, briefly, explained below.

1. While NBFCs have been given abatement of 90%, Chit Funds which are also a NBFC, as defined by RBI, Finance Act etc, are deprived of any abatement, for no valid reason.
2. This levy is untenable and without any merit. While, with certainty, it will push the registered industry out of the mainstream, it has also come as a big boost for the unregistered operators, thus putting at risk the investing/subscribing public
3. The harsh reality is, with a cap on remuneration and wafer thin margins, the chit promoter cannot burden it and nor can pass it to the subscribers, as most of them are from the lower-middle income household, self-employed, in rural and semi-urban areas and the levy would negate the benefits of economical form of financing that is intermediary provides and for the savers, it will be rendered, cost inefficient.

The levy of Service Tax is the *proverbial last straw to break the camel's back*, for the industry that is already in turmoil mostly due to the media frenzy, and partly by the sheer ignorance/negligence of the Administrators/Regulators and of course, the current legislation, The Chit Fund Act, 1982, that is obsolete and needs major revamp. **In fact, the combination of the above is so lethal; the subject under review assumes enormous interest for not only our industry, but more for the public, at large, and thereby our economy.**

Way Forward: Prayer

- Our Association, over the years, had been actively involved in the formulation of various State & Central Legislations; and many companies in existence for several decades have an impeccable reputation doing excellent service especially catering to the credit needs of lower and middle income households in certain sectors, where even banks are unable to reach. **As the need of the hour is smart, and not a hard regulation, it will be prudent to suggest that ours and similar other associations be involved, more meaningfully, in the formulation and implementation of the legislation and the rules as well,** as it will not be possible to make the distance till all stakeholders give it a push.
- **To carry out, Amendment of 'The Chit Fund Act, 1982'.** The Key Advisory Group on Chit Fund / Nidhi Companies, constituted by the Ministry of Finance has carried out the preliminaries, done in-depth study of the sector, and the recommendations of the group, that is pending implementation for quite a long time, shall pave way for a user friendly, yet effective legislation that is in tune with the current economic situation. **It is requested that the referred recommendations may be implemented at the earliest.** It is imperative to add that the reason for the enormous growth in the unregistered sector is on account of the fact that the existing legislation is over-regulatory and acts as a disincentive.
- We definitely value the freedom of expression but to get away with slander, in the name of *free media*, is just not acceptable. It is for this reason that we deposed before the previous committee and cleared the misconception about the operation of chit funds. However, even today, with utmost impunity, the media categorizes almost every financial misdeed as 'A Chit Fund Scam' and there is no rebuttal or any clarification from the concerned departments. This type of misinformation should be reined, as it could create a run, thereby putting at risk the public money. **Media, relevant authorities may be restrained from such misdemeanor.**

- Though exemption from Service Tax is fully justified on both social and economic parameter, **at least our prayer for parity, on technical ground, with other NBFCs should be granted** as otherwise, it certainly will be curtains for the Registered Chit Industry!
- Since the concept of chit funds has blended into our socio-economic culture and cannot be wished away, it would be prudent to include this unique, traditional financial tool, to complement other financial inclusion initiatives. **Necessary relaxations in this regard may be looked into.**

We reiterate our commitment for the investor protection measures and assure this august committee of our full assistance in doing everything possible, within our means, to ensure compliance of the statute.

Thanking you,

Sincerely,

All India Association of Chit Funds (Regd.)