

**Office of the Registrar of Chits & Commissioner and Inspector
General, Registration and Stamps, Telangana, Hyderabad.**

Circular No.CF/1706 /2015, dated: 14.5.2018

Sub:- Chit Funds Act, 1982 – Certain allegations and complaints against Chit Fund organisations – SLCC Meetings convened by RBI – Inquiries made by the field officers - Instructions issued on certain statutory and procedural aspects – Regarding.

Ref:- Chit Funds Act, 1982 and Rules made thereunder as applicable to the State of Telangana; and several alert notes received from RBI and discussions held in RBI during SLCC meetings; and intelligence reports from police and other agencies; and complaints received from subscribers..

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Attention of all the Foremen of the Chit Fund organisations in the State is invited to the reference cited. The Chit Funds Act, 1982 aims at bringing order and discipline in the chit funds business while ensuring the interests of the subscribers and chit organisations. It elaborately discusses the powers and responsibilities of the chit organisations through its functionaries. It is a substantial law. The main purpose of the Act is to regulate the chit business and control the activity of the foreman so as to protect the subscribers and chit businesses who transact as per the law. This Act has been brought into force in the State of Telangana wef 15.9.2008 through the Government of India Notification No. F.19/50/2006-BO-1, Dt. 15.9.2008 simultaneously repealing the A.P. Chit Funds Act, 1971. The Rules made by the State under the Act are comprehensive to implement the law in true letter and spirit.

During the State Level Coordination Committee Meetings held by Reserve Bank of India (RBI) under the Chairmanship of the Chief Secretary of the State, the complaints filed by the citizens against the alleged irregularities of the Chit businesses, among other things, are discussed every quarter. Besides, the RBI's intelligence, the other investigating agencies of the Central and State Governments gather the information on alleged irregularities by the chit fund organisations and ask the department to inquire into them. The department is conducting inquiries on all such allegations. The allegations and irregularities of the chit businesses are broadly classified as under; and the statutory position governing the subject is mentioned against each such observation:

Sl.No.	Irregularity/Complaint nature	Statutory position
1	Certain groups are registered and certain groups are not registered or all groups are not registered under the law.	All chit groups shall be registered as per Section 4 of the Act. Contravention of this provision entails penalty as per Section 76 of the Act which is punishable with imprisonment for a

		term which may extend to two years or with fine or both.
2	Transacting business other than chit business by a company. The complaints are that the Chit Companies are doing business other than the chit under the same roof.	As per Section 12 of the Act, no company carrying the chit business shall conduct any other business unless there is a general or special permission of the State Government. So far, in our State, no company has been given permission to do any other business. The chit fund companies indulging in any business other than the chit business are liable to be punished under Section 76 of the Act that is imprisonment for a term which may extend to two years or with fine or both.
3	Utilising the funds for other businesses or purposes. There are complaints that the chit fund companies are indulging in routing the funds to other businesses or purposes other than the chit business.	This subject is governed under section 14 of the Act. This section clearly laid down the purposes for which the funds of the chit business shall be utilised. If any chit company found to be diverting the funds, then the foreman is liable to be punished under Section 76 of the Act that is imprisonment for a term which may extend to two years or with fine or both.
4	Copies of minutes under Section 18, filing of balance sheet under Section 24, removal of defaulting subscribers under section 28, substitution of subscribers under section 29, entry of transferee's name in the book under section 37 and other statutory forms are not filed or filed with delays	The forms and periodicals prescribed under law and rules are there to ensure the discipline in each and every aspect of chit business. Therefore, any violation attracts penalties and department may have to prosecute the companies under the law if they are of serious nature instead of compounding under Section 81 of the Act.
5	Security to be given by foreman under Section 20	A comprehensive circular was issued on this aspect to the field Officers in circular number CF/7973/2017, Dt. 29.12.2017. The Chit Fund organisations have to follow the law in true spirit. As per allegations, the immovable properties, in certain cases, offered as securities are inflated intentionally, which may jeopardise the interests of the subscribers. Therefore, the concerned Chit Fund organisations shall immediately substitute them with suitable FDRs otherwise the department have to initiate necessary action as per law.
6	Non-payment of prize	There is plethora of complaints on the

	amount to the prized subscribers or delays in payment	subject. The allegations are that certain foremen are not paying the prize amount to the prized subscribers as per the provisions of the Act (section 22) by next instalment. If owing to default of the prized subscriber, the prize amount is not paid, then the foreman shall deposit the prize amount forthwith in a separate account in an approved Bank mentioned in the chit agreement under intimation to the prized subscriber and Registrar. As per clause (4) of Section 22, the foreman shall not appropriate to himself any amount in excess of what he is entitled to under clause (b) or clause (c) of sub-section (1) of Section 21. Therefore, as per law, the interest if any accrued on the account of such deposit of prize amount of prized subscriber in a separate account shall be paid to the prized subscriber along with the prize amount but it shall not be appropriated by the foreman excepting the statutorily permitted amounts under section 21.
7	Placing impractical conditions and unnecessary queries to pay the prized amount to the subscribers	The allegations are that certain foremen are placing many riders and conditions to pay the prized subscribers the prize amount even though the securities are furnished citing the subject to satisfaction clause under the law. Therefore, the chit organisations shall follow uniform procedure in accepting the securities for the future payments from the prized subscribers. There shall not be any condition or rider which cannot be complied with by the middle and lower middle class subscribers. It is also alleged that the chit organisations are collecting signatures of the prized subscribers on the white papers and pro notes; and insisting for signed blank cheques. These documents are subsequently being used to show as a proof against the subscriber. These acts are illegal and unethical. Therefore, the chit organisations shall follow the law strictly and should not insist for such documents/cheques from the subscribers and they should not be put to harassment.
8	Insisting for the deposits and purchase of plots/structures to the prized	There are allegations that certain chit fund organisations are insisting the prized subscribers to deposit their prize

	subscribers in lieu of payment of the prize money.	money in the schemes of their sister concerns instead of paying the amount to the prized subscriber. There are also complaints that certain companies are demanding the prized subscriber to invest the prize money in gold schemes/ real estate schemes of their sister concern organisations. This is not permitted by law and it is a clear arm-twisting. The RBI and other investigating agencies are focusing on this aspect. The foremen are strictly directed not to indulge in such activities as they are not permitted by law and the innocent subscriber cannot be taken for a ride as it is his money and he can choose what he should do with that but he should not be compelled by the chit organisations to direct the money in a channel of their choice.
9	Prized subscriber to furnish security including Foreman under Section 31	When the foreman is the prized subscriber in any instalment, as per this section, the foreman shall give security for the due payment of all the future subscriptions to the satisfaction of the Registrar. There are allegations that certain foremen are not giving security to the satisfaction of the Registrar. The Registrars shall verify the security offered by the foreman and ensure that the security is sufficient to discharge the liability of the foreman in respect of such chit.
10	Non-compliance of Section 8 (3) of the Act	As per law, every company in chit business shall create and maintain a reserve fund equivalent or more than 10% of the profit of each year as disclosed in the P&L Account and before any dividend on its shares is declared. But, many organisations are not creating the reserve fund out of the balance of profit as per law. The ARCs and DRCs shall verify this aspect scrupulously.
11	Manipulations during auction of chits	There are complaints that whenever the <i>bonafide</i> subscriber participate in auction, certain foremen are under the alibi of proxies on behalf of their sister concern indulging in raising the bid amount; whereas when the <i>bonafide</i> subscribers are absent, the foremen are lifting the chit at a lower bid causing loss to the subscribers. Therefore, the

		ARCs and DRCs shall verify the conduct of the auction and check and curtail the possible manipulations of the foremen. Entire auction proceedings shall be strictly as per Section 16 and rules made thereunder.
12	Privileges, Commission & interest are enjoyed/collected more than what prescribed under law	As per section 21, the foreman is entitled to obtain the chit amount at the first instalment without deduction of the discount specified in chit agreement subject to the condition that he subscribes a ticket in that chit. But, he shall not use this privilege for any other ticket if he subscribes more than one ticket. The maximum commission allowed is 5%. The interest collectable from prized and non-prized subscribers in delayed payments is also prescribed by law and rules, and the same shall be followed strictly.

Keeping in view of the above, all the Chit organisations in the State are requested to follow the law, rules and executive instructions governing the chit business without any dilution in the interest of the subscribers and chit fund organisations. In case of failure to adhere to the above instructions and law, the penal provisions will be initiated against the erring organisations.

Sd/- Smt.Vakati Karuna, IAS
Registrar of Chits and Commissioner & IG,
Registration and Stamps Department.

To
All the Chit Fund organisations through the ARCs concerned.

Copy to
ARCs and DRCs and DIGs.

Telangana Federation of Chit Funds.
All the Officers in the C&IG's Office.

Department of Non-Banking Supervision,
Reserve Bank of India, Hyderabad.

Copy submitted to the Special Chief Secretary to Government,
Revenue (Registration) Department, Telangana, Hyderabad.